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ECONOMIC DIGEST

JUNE, 1953 **VOLUME VI** **NUMBER SIX**

Economists as Prophets

BY PROFESSOR JOHN JEWKES, C.B.E. (*Oxford*)

THERE is nothing in economic science which enables us to foretell events. Those who claim otherwise are dragging their subject down to the level of astrology or some other of the many forms of divination that have, at various times, exerted their meretricious seductions.

It would be unnecessary to repeat that truism were it not for the fact that economists have, in recent years, been disposed to overstep the limits of their discipline and to talk and act as if they knew enough about the future to advocate policy with confidence. The results have been unfortunate and are likely to bring the science into disrepute.

Some Forecasts Recalled

Before the war, it was accepted by many economists, and disputed by few, that all advanced industrial countries were rapidly passing into a condition of maturity and secular stagnation. Openings for profitable investment would be restricted. The savings of these communities would be at a level which would make for extensive and chronic unemployment. It was, so the argument ran, hopeless to assume that invention could take place on a scale which would maintain the dynamic forces which had kept industrial countries going in the nineteenth century. The implications of this were obvious. Thrift and saving would cease to be virtues. The important role of governments would be to maintain and increase the level of consumption. Full employment would perhaps never again be attained in communities where investment was controlled by the expectation of private profit.

Events, of course, have completely falsified these expectations. The hunger for capital is everywhere intense and nearly every government is engaged in a campaign to keep down consumption, to encourage savings, to find some space within its congested economy for the claims of investment.

Before the war, many economists were prepared to accept and even to endorse the estimates of future population which suggested that most Western countries were confronted with an imminent decline in population. The most alarming pictures were painted of the effects of this decline, of the virtual impossibility of arresting it and of the menace which thereby confronted Western civilisation.

Again the forecasts have proved unreliable. For example, in Great Britain the present population is now considerably larger than the pre-war forecasts which were based even on the 'highly optimistic' assumptions. And some countries in which alarms about under-population were raised before the war are now regarded, in

From The Economist and Public Policy, Lloyds Bank Review, London, April 1953

some quarters, as being confronted with over-population.

Before the war, it was widely asserted that forces were at work which would gradually reduce the volume, or the relative volume, of international trade. Some German economists, indeed, had propounded a 'law of the diminishing importance of foreign trade'. The future undoubtedly lay with self-sufficient communities.

In fact, the quantum of world trade is considerably larger than before the war, every country is striving to increase that volume and, even in the case of the United States, it is clear that the dependence of one nation upon another is tending to grow rather than decline.

Before the war, it was generally accepted in Great Britain that the heavy industries had had their day and that Britain must develop rapidly the lighter consumption goods industries if she were ever to be prosperous again. The whole policy of 'balanced distribution of industry' and the restoration of the depressed areas was based upon that diagnosis.

The forecast has proved to be completely wrong. It is a shortage of coal and of steel which troubles us and not a surplus. And in these days it is assumed that Britain's industrial future depends largely upon the development of the heavy industries and of engineering, upon which the export trade has come to rest increasingly.

Trans-Atlantic Blushes

A full list of these errors of major prognostication would indeed be a sobering one. It would tell how, in the United States in the spring of 1929, six months before the onset of the greatest industrial depression in history, a committee of high authority informed Mr Hoover that 'our situation is fortunate, our momentum is remarkable . . . in the marked balance of consumption and production . . . the control of the economic organism is increasingly evident . . . economically we have a boundless field before us.' Eighteen months later the American national income had dropped by 50 per cent. And how Mr Hoover in 1930, after consulting two hundred economic experts, declared that the American depression was virtually over.

It would tell how British and American economists after the war expected unemployment which never arose. Of how, in 1948, the Swedish economic experts, anticipating an American slump which never arrived, managed to plan a buoyant and healthy economic system into distress and restriction. Of how the British Annual *Economic Surveys*, year after year since 1947, failed so lamentably to pick out the crucial economic trends. Of how, over nearly half a century, economists have warned us of impeding shortages of raw materials, predictions which have nearly always been falsified by new discoveries and new inventions.

Economists should make it clear that they have no special aptitude for consulting the entrails. Economic prediction as a scientific method is not merely absurd, because impossible, but dangerous, because seductive.

Yet economists in these days are still engaged in these practices, declaring that the terms of trade have changed *permanently* against the manufacturing countries; or lending their countenance to the view that the world is confronted with a long-period shortage of food; or telling us

that there will be a permanent shortage of dollars—just the kind of shots in the dark that have in the past so palpably missed the target.

Invention Wrecks Prediction

It does not need much thought to understand why prediction is so hazardous. It can almost be summed up in one word: invention. No one can know where pure science will take us next but we can be sure that with the recent rapid growth of scientific knowledge the chances of fruitful cross-fertilisation between the different branches of science increase and, with that, the chances of new achievement in unexpected fields. No one knows what technological applications of pure science will be made, but all the recent work on the history of invention reveals how unpredictable are the darting flashes and intuitions of the seminal minds of each generation and how blind we can be to the bounties that are on the doorstep.

Judged by the rate of technical innovation we are in the midst of an unprecedented industrial revolution. The paradox of it is that whilst everywhere emphasis is placed upon the need for and the value of research, the purpose and result of which is to make the future unpredictable (since research consists of looking for things which may or may not exist and often of looking for one thing and finding another) there is also this neurotic hankering after prediction, the only purpose of which is to try to be sure about the future.

Wisdom About Future

There are, however, two possible objections to what has already been said. The answers to these objections, in my opinion, go to the heart of this question of what role the economist, strictly as economist, should perform in society.

No advanced community could exist, and indeed no individual could lead a settled life, unless some thought were taken for the future. Each one of us must be prepared to rule his actions by allowing for the probable consequences of them. Every businessman must make decisions, particularly regarding investment, where hazard and conjecture are inherent. Every government must, at times, adopt policies upon matters regarding which all the relevant information simply does not exist.

Are we not, therefore, by denying value to economics as a predicting science, removing the subject to an ivory castle in which, because it would lack immediate usefulness, it would cease to command either the interests of scientists or the respect of the public?

Understanding Economic Scene

I think not. It is, of course, clear that although no one can be sure about the future, men must by hook or by crook take thought for, and strive to be wise about the future. The role of economic science here is not to make predictions for the community. Nor is it to attempt to create the devices and techniques through which the future can be clearly foreseen. The role of economic science here is, first, from its understanding of the nature of the economic scene, to make clear the inevitability and unpredictability of change; second, to suggest mechanisms and methods of measurement by which changes will be recognised as quickly as possible when they have occurred and third, and most important of all, to

search for and even to recommend those institutions which will enable men and societies to adjust themselves as easily and painlessly as possible to the inescapable vicissitudes of economic life.

Statesmen, businessmen, individuals may be compelled to predict. That is their burden. The economist cannot lighten that burden except by helping those who carry it to recognise their errors as soon as they are made and to build up habits and institutions best fitted for clearing up mistakes.

The second objection to the plea for a modest and restricted role for the economist is that, if economics confers no power of prediction, and if the test of any science is that it should make prediction possible, then economics is not a science. Such a disheartening conclusion might seem an ungracious belittlement of the devoted and disinterested intellectual strivings of the great economists of the past two centuries.

Economics—A Science?

The escape from such an unpalatable conclusion can be found in more directions than one. A science, to be ranked as such, need not claim predictive functions. There are many large masses of knowledge which are not directly concerned with prediction: geology, descriptive biology, observational ecology, botanical classification, some branches of anthropology, clinical medicine. No geologist would be prepared to forecast the earthquakes of the future or feel particularly cast down because he could not do so. Yet the economist will often predict the shifts and slitherings of the economic scene or consider his failure to do so to be evidence of the painful immaturity of his science.

The second line of escape is to point out that economists, although they cannot systematically engage in prediction, can, and indeed often do, properly concern themselves with cause and effect. Studies of the past are studies of cause and effect, 'prediction backwards' as Marshall used to describe it. We would have better economics if more economic history were read and written. Economic theory is speculation, under strict conditions and with a knowledge of the past, of cause and effect. But, of course, the reasons why it cannot be made the basis for prediction is that what is true of the past need not be true of the future and that the conditions in the future are essentially unknowable.

The purpose of a science is understanding and not the power to predict. So long, therefore, as the economist devotes himself with integrity to an *understanding* of the world around him, whether or not that provides him with the means for knowing better than the man in the street what will be the economic future, he can claim respectability for his studies. There is no real need to claim for economics a usefulness beyond that. The light it spreads and not the fruit it yields is its first aim. If it is to make a more positive contribution to policy, if it is to prove useful to those who have to make decision within the penumbra of doubt which links together the present and the future, then it will only do so if the statesmen and the businessmen can somehow share that understanding and, as a consequence, see more clearly what they are trying to do, what are the real choices before them.

U.K. Budget and Consumer Expenditure

BY MARK ABRAMS
(*University of Sheffield*)

A BACKWARD glance at the consumer's spending habits over the past three years is a necessary part of any fruitful discussion of his probable behaviour in 1953.

Between late 1949 (i.e., the final months of Mr Attlee's first Government) and late 1952 (the final months of Mr Butler's first year at the Treasury) there were two sharp changes in consumption—one in the pattern of spending, the other in the channels of spending.

The former is perhaps the more striking and will undoubtedly play a large part in shaping the developments of 1953. A comparison between the second half of 1949 and the second half of 1952 shows practically no change in the total value of personal consumption at 1948 prices, i.e., the real income of consumers as a body was identical at the two periods. But within the totals there were, as shown in Table 1, some substantial shifts of individual commodities; real consumption of fuel and light rose considerably, food, drink and tobacco, and housing slightly, and all these gains were primarily at the expense of household goods, footwear and clothing.

To some extent this rearrangement of real consumption has been obscured by considerable price increases over the three years. Between the second half of 1949 and the second half of 1952 the total amount of money devoted to personal expenditure rose by 20 per cent. and average retail prices by 23 per cent (wages rates rose by 21 per cent). Food prices, however, rose by a good deal more than this average (in fact, by

(1) **Personal Consumption Revalued at 1948 Prices**
(in millions of pounds)

—	(a) Second half 1949	(b) Second half 1952	(b) as per cent of (a)
Food	1,209	1,239	102
Drink, tobacco	768	801	104
Rent, rates	329	344	105
Fuel, light	161	183	114
Household goods	317	291	92
Footwear	93	78	84
Clothing	385	372	97
Travel	186	191	103
Entertainment	86	87	101
Other goods and services ...	925	897	97
Total ...	4,459	4,483	101

From The Times Review of Industry, London, May, 1953

(2) Personal Expenditure at Current Prices

—	Second half 1949		Second half 1952		% increase 1949-1952
	£m.	%	£m.	%	
Food	1,280	28.0	1,721	31.3	34
Drink, tobacco... ...	760	16.6	866	15.8	14
Rent, rates, fuel, light ...	494	10.8	602	11.0	22
Household goods ...	322	7.0	366	6.7	14
Footwear and clothing	499	10.9	545	9.9	9
Travel	186	4.1	218	3.9	17
Entertainment	86	1.9	93	1.7	8
Other goods and services	943	20.7	1,085	19.7	15
Total ...	4,570	100.0	5,496	100.0	20

almost 40 per cent), and it therefore follows that the private citizen, in increasing his real consumption of food at these much higher prices, must have diverted a very considerable slice of his extra money to buying food. Table 2 shows the changed pattern of expenditure. The two outstanding beneficiaries of the new price structure are obvious—food and public utilities.

An alternative way of expressing the change is to note that of the additional £926m. expenditure 48 per cent was for food and 12 per cent for rent and fuel. Less than 10 per cent of the increase was used for footwear, clothing and household goods. From these figures of the recent past it seems reasonable to conclude that if in 1953 the consumer can get his hands on any extra money (*e.g.*, by increased real earning or by a fall in food prices or a remission in taxes) then a large part of his gains will be devoted to footwear, clothing and household goods.

The second recent development that must be borne in minds relates to the changing structure of the retail trade. As rationing has dwindled and supplies have increased the consumer has diverted his custom to those shops which (in his opinion) offer a more attractive display and a more varied stock of goods. These apparently have been the multiples and the variety chain stores and their relative gains have been most marked in clothing and footwear. An end to all rationing during 1953 would probably accelerate this trend.

Mr Butler's Budget showed a firm belief in what can be called the American theory of incentives—that a combination of relatively high prices for food and relatively low prices for semi-luxuries is the most effective spur to the average worker's energies. In the past Britain has tried to operate on the contrary doctrine—low food prices and high semi-luxury prices.

There is general agreement about the immediate consequences of the Budget. This year's remissions in personal income tax will go largely into the pockets of two groups of taxpayers—the unmarried worker at all

levels of income and the married worker with a small family and earning over £600 a year (less well-paid parents were already usually exempt from income tax). The gains of the former group should stimulate sales of cosmetics, clothing, entertainment and holiday services, drink and tobacco. The gains of the latter should feel the demand for durable consumer goods—particularly domestic equipment and motor-cars. A little may be saved.

The cuts in purchase tax of £45m. this year will largely benefit precisely the same two groups and stimulate precisely the same markets. Broadly, these cuts amount to a reduction of 10 per cent in the retail prices of motor-cars, cosmetics, jewelry, electric fires, fur coats; 7½ per cent in the retail prices of television sets, refrigerators, gas fires, washing machines, cameras, travel goods; and 5 per cent in the price of carpets, linoleum, hardware and cutlery. The general effect of the purchase tax reductions is that for the calendar year 1953, out of a total personal expenditure of £10,500m. (at 1952 prices) goods to the value of £750m. will be affected, and these will show an average price reduction of 6 per cent as compared with 1952; *i.e.*, over the whole range of goods and services the direct effect of the purchase tax change will be a decline in prices of less than half of one per cent.

This general picture, however, certainly obscures what may be important individual fluctuations. (These fluctuations are discussed in detail in the original article.—Ed., E.D.)

In short, the Budget was a consumer's budget and was presumably designed to ensure that no unemployment should appear during 1953 in the non-export trades, that total retail sales both in volume and value should be slightly above 1952 levels and that particular trades should do appreciably better than in 1952.

Traps for Budget Makers

The experience of the post-war years, however, has taught us that world events are not entirely under the control of the Chancellor of the Exchequer. Some have aimed at fiscal surpluses and achieved deficits; others have sought convertibility and had to make do with devaluation. Time and again we have found that in the last resort what happens in Britain depends largely on events in Chicago and Singapore, Osaka and Calcutta.

Britain, more than any other country, depends for its prosperity on international trade. Her success in this field is the main determinant of the British workers' earnings and these in their turn largely determine year by year the total value of domestic retail sales. The latter relationship has been remarkably constant in recent years. In each of the five years 1948-1952 the recipients of wages and salaries retained 90 per cent of their earnings after paying their direct taxes. And in each year these net earnings were equivalent to roughly 70 per cent of all consumer expenditure. The outcome for 1953, therefore, turns on what will happen to wages and salaries.

In 1952 these earnings, before tax, came to £8,335m. The total for 1953 will be determined by movements in wage rates and by changes in employment. At the moment wage rates are stable, and Mr Butler by keeping most of the remaining subsidies and by lowering purchase tax has done his best to see that the cost of living

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Proposed Tax on Spent Income, instead of Received Income

The persistent interest of the Right Honourable Hugh Gaitskell and his Labour M.P. colleagues in the late Professor Irving Fisher's proposal that tax be levied on a person's spending instead of upon his income, may have important implications. Extracts are therefore given from a debate in the House of Commons on April 2, 1953, in which a strong plea was made for study of the Irving Fisher proposals by the Royal Commission on Taxation. The speakers were Mr Anthony Crosland, Mr Austen Albu, and the former Chancellor of the Exchequer.

(1) Anthony Crosland

Last summer the Chairman of the Royal Commission on Taxation sought a ruling from the Chancellor of the Exchequer whether the terms of reference should or should not be interpreted as permitting a discussion of:

'the type of expenditure tax which has been advocated by the late Professor Irving Fisher, the American economist, namely, a graduated tax under which the measure of a person's liability is determined, not by his income as such, but by the amount of personal expenditure which he meets out of his resources of all kinds, including capital as well as income.'

The Chancellor of the Exchequer replied that this matter could not be considered as falling within the terms of reference. The purpose of this debate is to discuss the Chancellor's ruling and urge him to change it.

Incentive to Save

The proposals which were made by the late Professor Irving Fisher and other people are, very briefly, that instead of taxing the whole of a person's income—as income is now defined—regardless of the use to which that income is put, we should tax only that part of the income which is spent, so that that part which is saved is not taxed. In addition, we should tax that part of a person's expenditure which is met out of his capital and which is not at the moment subject to tax.

In other words it would exempt current savings from tax while at the same time taxing current dis-saving. In effect, the tax would become one on a person's total annual expenditure or, in the phraseology of the late Professor Irving Fisher, it would be 'a tax on net cash yield income'.

This involves a change in the definition of the word 'income', but that definition has frequently been changed for tax purposes, and there has always been a great deal of argument as to what was the correct definition for tax purposes. The idea of changing the definition of either 'income' or 'profits' for taxation purposes is certainly far from being unknown.

Any change such as this, which would exempt current savings from tax but at the same time bring current dis-saving under taxation, would give an enormous incentive to save and provide a strong disincentive against dis-saving.

This is not a party issue and there is no suggestion that the Chancellor was actuated by any party or political motive.

My second preliminary point. When my right hon. Friend set up

this Royal Commission he presumably did so because he was concerned about the effects of taxation on incentives of one kind and another, and I imagine that in his mind at that time the dominant worry was the possibility that our present levels of taxation, or even lower levels, might have a serious effect on the incentive to save.

Most people would think that this was the most important single question which the Commission could discuss—how, within a rather high level of taxation such as is necessary by reason of the social services and the concept of a welfare State, we can retain sufficient inducements to save.

Why then did the Chancellor decline to allow the Commission to discuss this very important proposed reform, which at first sight promises such beneficial results in terms of the incentive to save?

The Chancellor gave two reasons for his decision. The first was that this proposal is equivalent to a tax on expenditure—which is quite correct —and therefore it does not come into the scope of an inquiry into the taxation of income and profits. His second point was that it was impossible to consider this tax without also inquiring into the whole system of indirect taxation, because a tax of this sort came into the field of indirect taxation and it could not be considered without the consideration of the rest of that field.

Taxation Definitions

I want to deal briefly with those two points in reverse order. The first argument is that we cannot consider a proposed reform of this nature without considering the whole field of indirect taxation. Is there any reason for believing that this is true? What is the difference in principle between direct and indirect taxation? I am not aware that there is the slightest argument as to what is that difference in principle. I want to quote from a standard and well-known text-book on taxation which sums the matter up in a way which I think would be agreeable to everybody—Mrs Hicks, on 'Public Finance'. Mrs Hicks defines direct taxation as including

'. . . taxes for which the liability varies with the circumstances of the taxpayer'

and indirect taxation she defines as:

'Those taxes whose liability depends on the amount or value of a particular product or service purchased.'

That is a perfectly clear distinction, agreeable both to common sense and normal usage.

If one accepts those definitions, it cannot be considered that the sort of reform which has been suggested falls into the category of indirect taxation. If we modify Income Tax in the way proposed, so as to reduce the liability to tax to the extent that people are currently saving and to increase the liability to tax to the extent that people are currently dis-saving, it is quite clear that the tax will still involve a liability which varies according to the circumstances of the individual concerned. It is equally clear that it will not involve any liability which varies with the price or amount of any product or service consumed.

Therefore it does not fall into the category of indirect taxation.

Administrative Difficulty

The other argument which the Chancellor used was that this proposal does not come within the scope of an inquiry into taxation on income and profits.

The fact is, however, that suggestions along these lines have formed

a part of every discussion on Income Tax and Profits Tax which has ever taken place in this country.

If we go back to the first Government inquiry in this country into the system of income taxation, the Hubbard Committee of 1861, we shall see that a large part of the discussions of the Committee were taken up in dealing with the proposal of John Stuart Mill that they should do precisely what is now suggested and exempt current savings from taxation.

Alfred Marshall wrote a well-known article urging this reform in Income Tax; while Keynes, in his evidence to the Colwyn Committee on taxation, described this as an ideal form of direct taxation. Professor Pigou has discussed this in his writings over and over again, and Irving Fisher, whose name has already been mentioned, wrote innumerable books and articles about the subject in the course of a fairly long life-time.

The reason why previous individuals and committees have turned the scheme down has almost entirely been on grounds of administrative practicability. The whole question of administrative practicability is something which ought to be considered again, for it has not been considered for 30 years, since the Colwyn Committee.

Germany Experiments

Such a reform is actually embodied in the present Income Tax practice of at least one important country—Germany.

The taxpayer in Western Germany can, if he so chooses, allot a part of his income to a special bank account, and, provided that the money remains frozen in the bank account for three years, one-half of that part of his income becomes exempt from Income Tax. This is a limited application of the proposal which is under discussion—namely the exemption of savings from Income Tax.

Such a reform would in fact not be a revolutionary departure from the existing basis of the British income and profits taxation system. It has never been true in this country that Income Tax fell equally on all income irrespective of the use to which the income was put. A great number of exemptions from Income Tax are already made, according to the use to which the income is put, and the most significant aspect of our present Income Tax system from this point of view is that income is already relieved from the full weight of taxation for one form of savings—namely, the premium on insurance payments. That is a modification precisely along the lines suggested in this scheme.

A similar position occurs with profits taxation. The profits taxation system in this country already distinguishes between profits according to the use which is made of them. There is a distinction between distributed and undistributed profits.

Surely it is fair to say that this distinction between distributed and undistributed profits, one bearing a heavier weight of taxation than the other, is a discrimination in favour of profits which are saved against profits which are spent. It cannot be said to be an absolutely novel principle, therefore, to suggest that this discrimination should also be applied to Income Tax.

I have no idea until the Royal Commission has examined and reported whether or not it would be a desirable reform. That is not what

we are debating today. We are only saying that it appears to be a matter of sufficient importance for the Royal Commission to discuss.

(2) Austen Albu

One of the great difficulties we have been faced with in the years since the war, in a time of full employment and sometimes of some inflationary pressure, when we have had continuously to ask the trade unions to adopt very considerable restraint in regard to wage claims, has been the obvious retort that, however much dividends may have been limited, there has been a considerable degree of very conspicuous consumption. Try as we can, when speaking to trade unionists of these matters, we cannot persuade them that there is not a very much higher degree of expenditure in this country than the figures of the actual distribution of the national income as officially printed and published show. There does seem to be a very good case for the examination of a method of taxing which is a taxing of the demands made by individuals on the product of the community, rather than entirely of their incomes.

(3) Mr Hugh Gaitskell

If we are to consider proposals for encouraging savings by tax reliefs of one kind or another, unless we at the same time do something to prevent dis-saving, or to discourage dis-saving, there is an obvious danger that the taxpayer will get the benefit of the reliefs given to him for increasing saving by simply drawing on his capital. In other words, he maintains his standard of living by drawing on his capital and proceeds then to save and show the results of saving to the Income Tax authorities and get relief from taxation accordingly.

The problem of dis-saving is a rather serious one. There is, with the present rate of taxation, a very great temptation to a man with a substantial amount of capital, to maintain a high standard of living, perhaps a higher standard of living than the country can really afford, by drawing on his capital.

U.K. BUDGET AND CONSUMER EXPENDITURE (*continued from page* 247)

will not rise and that it will, therefore, be very difficult for the trade unions to demand wage increases. However, for the first quarter of 1953, wage rates were 5 per cent higher than the first quarter of 1952 and it is reasonable to conclude that for the year as a whole they will show an increase of 4 per cent. Up to this point there need be no pessimism about retail sales.

Export Prospects

What about employment? Mr Butler has presumably taken care of the 70 per cent of jobs which provide goods and services for the home market. But there is less reason for optimism about the remaining 30 per cent. For some months world commodity prices have been falling and that means that the incomes of some of our best oversea customers—the producers of raw materials—have been falling. In the United States inventories of finished goods have been mounting and that, too, threatens our export possibilities. Finally, German and Japanese exporters are now fully in their stride.

All in all then a decline in our export trade in 1953 is a real possibility and 30 per cent of our workers may see a reduction in their overtime earnings, the emergence of some short-time working, and even a rise in unemployment.

Losses Disguised as Profits

BY SEBASTIAN EARL (*Joint Managing Director of Selfridges*)

IN ONE respect Department Stores in this country are fortunate. Their buildings and equipment and their freeholds or long leases are in most cases based on the values of the late 1920's or early 1930's or in some cases of before the 1914 war. This has enabled them to earn a reasonable margin and provide those improvements and developments which they need to keep the public favour.

If they had to pay interest and depreciation on the replacement value of all their assets and rent and rates on today's appraisal of their sites none of them could make a reasonable profit and few could avoid a heavy loss. Should the speculation in the shares of stores which has recently been so widespread have as its object the extraction of a capital profit from the business at the cost of an increased rent charge in the future, it can only result in the inability of those businesses to face the results of any future slackening of trade.

The same would be equally true of banks or indeed of any conservatively managed industrial concern with property purchased for future development when the opportunity arose. If the continued existence of Department Stores is advantageous to the community it should be realised that inflating their fixed assets to present-day values without any corresponding increase in their earning power may well be as disastrous to them as it was to sections of the cotton trade after 1918.

BETTER FACE THE FACTS

BY HAROLD WINCOTT

WHAT Mr Earl says applies in greater or less degree to virtually the whole of industry.

And not British industry alone. For I see that the chairman of the United States Steel Corporation has just been discussing the question of 'financial malnutrition' in his industry, and in the course of his discussion he pointed out that American steel prices had been allowed to rise by only 27 per cent since 1940, whereas other costs had risen by over 130 per cent.

The process everywhere is the same. So far from profits having risen too much, as some politicians and trade unionists would have us believe, they haven't risen enough.

They haven't risen enough to allow some companies owning property to earn today's economic rent on today's replacement value. They haven't risen enough to permit much of industry to amortise past investment in plant and machinery and provide for the replacement of these assets.

As a result, the modern economy is often only sustaining the current level of consumption by running down its capital assets. So far from the cost of living being too high, in economic terms it's too low.

For this state of affairs not only the

From Financial Times, London, April 11 and April 28, 1953

politicians and trade unionists are to blame. The appalling ignorance and confusion which exists on these matters springs largely from the obstinacy of the accountants and statisticians.

Appalling Ignorance

There are Tory M.P.s going about today saying what good Socialists the Tories are because company profits fell last year.

Well, they did fall—and yet British industry was much better off with the lower profits of 1952 than it was with the boom profits of 1951. And a jolly good job, too. A few more years like 1951, with its apprent boom in profits and its fictitious 'income' from stock appreciation, and British industry would soon have been flat on its back.

The broad implications of Mr Earl's statements are indeed depressing. If existing businesses wouldn't be able to operate profitably if they accounted in a realistic fashion, what hope is there for new entrants, saddled willy-nilly with the charges Mr Earl finds so frightening?

If Mr Earl is right, everyone who had a stall in the market square in 1939, and has been able to stick to it, has a virtually gilt-edged guarantee against competition. Either that, or profit margins and profits on old businesses must rise substantially to permit new entrants to earn their keep.

Some Qualifications

But is Mr Earl right? He's right enough in his general thesis. But I've got some pretty heavy qualifications to make to some of the conclusions he draws from that thesis.

In the case of retail trade, it doesn't necessarily follow that the imposition of a rent charge must bankrupt a business if trading conditions deteriorate. That would happen if the business is being operated today at maximum efficiency.

But surely Mr Earl will concede that where this isn't the case, new management, importing new ideas and new efficiency, can so increase profitability that the burden of a rent charge can be borne quite easily.

Further, other factors besides operating efficiency may be involved —site location and changing consumer habits for example. In Mr Earl's own field it is common knowledge that some chain stores are buying properties at today's values, doing a lease-back on a full repairing lease, and paying an economic rate of interest, or rent charge or whatever you like to call it, to the institution buying the property.

Now it may be that in the event of the future slackening of trade to which Mr Earl refers, these chain stores will regret these transactions. But in these circumstances some of the older-established department stores are going to wonder what's hit them. And since some of the people involved in these transactions are pretty hard-headed businessmen, one can't help wondering, too, whether they judge the future of retailing to lie with the chains, rather than with the department stores.

Some of the latter, at any rate, seem to constitute a declining industry. Even in today's conditions of generally buoyant trade, their profits represent an inadequate return on book property values and a completely derisory return on present-day values.

There are many features about the recent scramble for 'bid shares' which I dislike. However that may

be, we always return to the point I made originally when discussing bids. If property is being used uneconomically by what is in fact a declining industry, is it wrong in the broadest interests of the economy if someone effects a change of user and by doing so secures the maximum benefit from the property?

Nothing will convince me it is. The process will be painful for someone. The secondary repercussions may be—indeed are—undesirable. But on balance the economy gains.

About the Banks

I was particularly intrigued by Mr Earl's references to the banks. Whatever else the banks may be, they are not a declining industry; the activities of the former mad-house Old Street way, and the now related institution further west, have seen to that. Since 1938, bank deposits have gone up from around £2,300m. to approximately £6,000m. Note circulation has risen from £446m. to over £1,500m. The national debt is now £26,050m., against £7,131m. in 1939. Bank clearings in 1952 totalled £110,584m., against £39,610m. in 1938. If ever there was an expanding industry, it's banking.

Yet Mr Earl tells us that if the banks had to pay interest and depreciation on the replacement value of all their assets and rent and rates on today's appraisal of their sites, they'd not make a reasonable profit and might even make a loss.

As we've seen, there's no reason for writing off banking as a declining industry. Neither is there any reason for thinking our banks are inefficient. What then is the answer to the conundrum?

It seems plain enough. This is where we came in. For years and years and years, we, as a nation and as individuals, have been getting our banking facilities too cheaply. And, let's face it, our too cheap banking facilities have been financed by two estimable groups of citizens —the folk who work in the banks and those who provide the banks with capital.

In recent years, there have been some signs that the truth of this assessment has been breaking out— as economic truth has a habit of breaking out, in the long run.

The banks, it is known, have been worried with staff problems and have done a good deal to improve the lot of their employees, with a view, of course, to attracting the type of employee they ought to have. There were even signs in January— or to be accurate, *one* sign—that the other underpaid partner in banking, the bank shareholder, might get a better crack of the whip.

Admittedly, politics play an even larger part in banking than they normally do in governing profitability. Any move towards reasonable profits there is automatically a bankers' ramp. Without any doubt the trends of the last twenty years in this country—and for that matter elsewhere—have militated against the banks. It is indeed inevitable, when you turn the management of currency and interest rates over to the politicians, that the politicians should call the tune, leaving the politically unimportant bank staffs and shareholders to pay the piper.

Nevertheless, for the reasons I have given, banking is an excellent illustration of the troubles that begin to accumulate once you lose sight of the fact that *all* capital employed in a business, in any business, ought to be subject to the economic test of earning and paying for its keep. And the test should be in terms of current

values, not of capital values which have gone never to return.

That is not to say, of course, that capital, by being subjected to this test, is automatically entitled to reward. Very often, certainly too often for the comfort of those concerned, we should find that companies which now seem profitable and prosperous were in fact declining businesses which, allowing for all the interference of politics in the general structure of business, ought to fade away, not continue to absorb investment resources which could be better employed elsewhere.

How Much To Open New Gold Mine? —£12,500,000

SOME interesting statistics and information on what is entailed by the opening up of a new gold mine today have been collated by the Anglo-American Corporation of South Africa. Total costs are presented at approximately £12,500,000, which is a far departure from the old days of the Central Rand when a major mine could be started on less than £1,000,000.

This high figure is based on a milling capacity of 75,000 tons a month, but as the eventual figure in most cases will be double this rate, in the long run further funds will have to be raised in due, either from a share issue or appropriation of profits for this purpose.

The breakdown of capital expenditure is as follows: shaft-sinking, station cutting and permanent equipment in shafts, £2,500,000; underground equipment and development, £1,500,000; reduction plant, £1,500,000; other surface buildings and equipment, £1,050,000; roads, railways, electric power, water and sewage reticulation, £400,000; large machinery, such as winders and air compressors, £556,000; purchase of mineral rights and company formation expenses, £425,000; salaries, general mine expenditure, geological boreholes and miscellaneous items, £750,000; stock in mines stores, £350,000; head office general capital expenditure, £350,000.

As there is no major town in the new goldfields, the mines have to accept the responsibility and cost of housing the workers. It is estimated that houses for European married miners and a proportion of the joint cost of hostels for single men require £1,750,000. In addition, the proportionate cost for a recreation club for European employees, a hospital for African workers, a hostel for Africans at each mine shaft, and a village for married Africans is approximately £1,250,000. If, however, houses for married Europeans are provided by a company other than the mining company, the total costs can be reduced by £1,450,000 to present a figure of £11,000,000.

From Mining Journal, London, April 17, 1953

Economics of Imports

STUDY OF COSTS AND CURRENCIES

BY GRAHAM HUTTON

EVERY effort of Ministers to get us out of our present predicaments deserves the support of economists; but the oldest dodge of a difficulty in world trade is to produce something at home which costs more than to import it.

In a recent publication prepared by the Ministry of Housing and Local Government and the Central Office of Information, published by Her Majesty's Stationery Office, the Ministers of Housing and Local Government and of Works commend experiments to save softwood in house-building which seem faulty, if not dangerously misleading, in their calculations.

The Ministers in a foreword invite 'every one to study these experiments; and those who will to improve upon them'. It seems not only easy but imperative to improve upon the estimates of their technicians if our economic problems are not to be greatly aggravated.

First, from their figures it appears that to save 0.817 standards of imported softwood in a three-bedroom house—say, at a free-on-board price of £70 a standard, and a fixed-in-position price of £120 a standard—the extra cost of entirely home-produced substitutes is £78. To save £57 in foreign currency we must divert resources and spend about £176.

Secondly, using any and all substitutes for softwood, including hardwoods imported from sterling countries, and taking the prices I have assumed for softwood above, we find that we must spend about £177 to save about £61 of foreign currency. Briefly, the proposition boils down to a preference for home trade as against exports in the ratio of about three to one in cost.

Thirdly, we are told in the introduction that 'a large part of our softwood comes from North America', though recently that part has amounted only to some 16 per cent of all imports of softwood; accordingly the technicians can calculate on saving only about £10 of hard currency by their experiments, and not £57—which makes their bargain of £176 of our resources for a saving of about £10 the more frightening.

Against those urging import cuts in his day, Adam Smith emphasised the danger to our exports of household utensils 'to the incredible augmentation of the pots and pans of this country'. In recent months we have witnessed an unhappy augmentation of motor-cars, textiles, crockery, etc., in this country, because to stabilise sterling we made it temporarily a scarce currency.

By the generalising of such 'experiments' as those commended by the two Ministers our export trade with Scandinavia, Finland, and other countries—already badly hit—would be further diminished, and another opportunity gratuitously created by us for our German and other competitors.

Surely Parliament and public can be offered further and better particulars of the economics of these 'experiments' before an already monstrous and costly housing programme is made even more of a drain upon the over-strained capital resources of an under-equipped and struggling country.

Letter to The Times, London, May 6, 1953

Reuniting Germany: Six Intractable Problems

'Essential economic changes have taken place in Eastern Germany, planned by Moscow precisely in order to make Eastern Germany an integral and indivisible part of the whole Eastern Block.' The resulting economic problems of reuniting Germany are daunting.

In the last two years—particularly in the last six months—essential steps have been taken to transform Eastern Germany into a Communist satellite state.

Roughly 90 per cent of its industrial production is no longer in private hands; about 85 per cent of the land is split into holdings of under fifty acres.

Nine months ago the leader of a 'circle' of economists in Stuttgart who study Eastern German problems, Dr Paul Binder, remarked that collectivisation of the land had still not begun there. He added that any collectivisation would have to be swept away if ever Germany were reunited, but pointed out that 'there has never been an agrarian revolution in world history which has been successfully reversed'. Collectivisation is now fully under way in Eastern Germany.

The East German Government has used every sort of means to dispossess the old landed class. It has forced them to deliver a huge proportion of their farm produce to the State collector—the average for all farmers is about 65 per cent of grain crops and 85 per cent of potato crops, and the so-called 'kulaks' have fared worse than the average. They have been fleeced of purely spurious accumulations of unpaid taxes, and machinery and implements have been withdrawn from them and handed to the State farms.

Persecution of the farmers has been paralleled by that of independent tradesmen and business men, but this has been a more gradual process ever since 1945. Commerce has been concentrated into the hands of the State 'Handelszentrale' and of the State-run boards for interzonal and foreign trade. Stakhanovite methods have been introduced into all sides of production.

Formidable Problems

In Western Germany a number of bodies have been busy over the last year working out the economic implications of German reunification. They include the Federal Ministry for All-German Affairs, the 'Konigswinter Circle' of exiled East Germans, the 'Paul Binder Circle' in Stuttgart, and an association of 'Independent German Business Men' which has met on occasions in Bonn. The members of these various bodies have been daunted by the problems involved. Here are a few of them:

1. It will be almost impossible to destroy the results of Soviet-sponsored land reform. A peasant proprietary can be far more easily created than swept away. The big estates of Mecklenburg and Brandenburg have vanished and been replaced by uneconomic and unmechanised small holdings. Save in sugar beet Eastern Germany has

From Manchester Guardian, April 22, 1953

ceased to produce worth-while agricultural surpluses. True, the pig and beef-cattle populations are now up to pre-war figures, but today it takes fourteen months to fatten a 2cwt porker as opposed to nine before the war. Grain harvests are less than 85 per cent of pre-war and there are an extra three million mouths to feed in what is now the Soviet zone. Roughly 600,000 acres of land are no longer farmed because of the flight from land which no longer brings a living.

2. One of Eastern Germany's greatest economic assets used to be its textile industry. Today it is sadly run down. Before the war this industry worked up at least 100,000 tons of cotton and 60,000 tons of wool a year. During the last three years supplies of raw cotton and wool have averaged 25,000 and 10,000 tons a year respectively. Capacity has shrunk, dismantled machinery has not been replaced, and the craftsmen of the trade have 'gone west'.

3. Eastern Germany was once a component part of the united Germany. This is no longer the case. The Russian objective has been to turn the Soviet zone into the workshop of the Eastern block. Russian efforts have not been as unsuccessful as often pictured. Projects such as the winning of coke from the brown-coal fields, the development of new hard-coal fields in Brandenburg, and the building of major steel plants at Furstenberg, Hennigsdorf, and elsewhere have failed. But steel production has been lifted half a million tons above the pre-war 1.2 million tons a year. The supply of electric power rose from 14 milliard kwh. in 1950 to 21 milliards in 1951, and around 22 last year. Production of pig-iron, cement, chemicals has risen. It is the presence of new industries, not the decline of electric power supply, which has left the householder with power cuts for several hours a day.

Trade and Currency

4. The fact that the Soviet zone has become a great industrial area has meant a reorientation of East German trade. Before the war the Soviet zone traded four times as much goods with the rest of Germany as it did with foreign countries. Its trade with the rest of Germany was roughly balanced at about four thousand million marks a year. Today roughly two thousand million marks' worth of goods, or between 80 and 85 per cent of Eastern Germany's 'official' exports, go to countries of the Eastern block. An estimated three thousand million marks' worth a year have been taken by Russia as reparations. Eastern Germany's interzonal and 'Western' trade is negligible. It would be a tough proposition for the Federal Republic to take over Eastern Germany's foreign trade—unbacked as it is by gold or dollar reserves, or by any sort of credit or goodwill with Western nations.

5. The East German currency is valued—at the free exchange rate in Berlin—at anything between four and six East marks for one West mark. If Germany were reunified, West German economists agree, the two currencies would have to be given parity. Any other arrangement would merely impede the economic recovery of the already backward and unbalanced eastern half of the new 'all-Germany'. Western Germany would have to take over a crippling financial burden, for East German banks have no clear-cut reserve policy, few capital resources, and no 'credit potentiality'. They have become mere issuing houses and exchange counters for nearly worth-

less paper money whose only value is its negotiability in an 'autarchic' Eastern block.

Unemployment Menace

6. German reunification would produce large-scale unemployment in the Soviet zone. Some 250,000 people there are employed in uranium mines which would have to be closed down, for they are operated at a fantastic loss in order to win next to nothing from wretchedly poor ore. Another two hundred thousand at least would lose jobs in industries which were set up for the benefit of the Eastern block and which could not hold their own in competition with their West German counterparts. Perhaps fifty thousand employees of the State-controlled 'Handelsorganisationen' shops and stores would go on the dole, along with over a hundred thousand members of the People's Police and the new armed forces. To these must be added those at present unemployed or in prison, and the two hundred thousand wage-earners who would probably return from exile in Western Germany. Out of five million wage-earners well over a million might be unemployed.

Unification Doubts

In face of considerations such as these West German economists have begun to outline plans and solutions. One plan has been evolved for supplying the Soviet zone, after reunification, with sufficient stocks of consumer goods. There is another plan for West German firms to 'adopt' their East German counterparts in order to help to finance production and market goods. The 'Associations of Expropriated Industries' in Hamburg have even drawn up a complete list of East German owners who are waiting to receive back their previous interests. The Federal Ministry of Justice has summarised all East German economic legislation which will have to be revised after reunification.

These are beginnings of essential planning on the German side. But at this stage, when talks on German unity are in the offing, two questions should be asked. Can an economically 'viable' all-Germany be evolved? For failure to do so will play into the hands of those far-sighted men in the Kremlin who believe in disrupting the West European economy and bringing Communist revolution there one step nearer. In the second place, should the risk of trying to reunite Germany be taken now? For the Russians must know that the longer reunification can be delayed the more certainly will Eastern Germany be integrated into the Eastern block. Whatever the answers to these questions Western statesmen should have fairly precise ideas on the subject of an economic as well as a political solution of the German problem.

CONVERTIBLE GERMAN MARK COMING?

It may well be, judging from current reports, that while Britain debates the possibilities of convertibility Western Germany may step in. In the European Payments Union that country has piled up a surplus of $430 millions, and it would like to use some of this for the purchase of dollar goods. But an even stronger reason for the country's conversion-mindedness is the belief that a convertible Deutsche mark would constitute an attractive invitation to potential investors in the country's heavy industries.

It is significant that Western Germany began to forge ahead soon after the Bonn Government introduced its monetary reforms in 1948. Today the nation leads the Continental countries in the extraction of coal and in the production of steel, chemicals, electricals, equipment, machine tools, shipbuilding and housing. *New York Times Editorial, May 5, 1953*

High Cost of Bad Timekeeping

BY OSWALD MOOR

BETWEEN £200,000,000 and £300,000,000 is lost to the country every year from avoidable absenteeism alone and about the same amount from illness and accidents at work. The average loss of production in factories through unauthorised absence and lateness at work is about 2 per cent.

Factories engaged on the same form of work in the same district differ sometimes by as much as 5 per cent in their absenteeism and time-keeping rates. In those with the low rates there is usually a scheme of incentives for good time-keepers, and deterrents for sluggards. In those with high rates little or no notice is taken of late arrivals or occasional absentees.

At some works the absence-rate is as high as 10 per cent—that is, one day in every ten was lost to production. In nearly every case the same group of men or women are responsible for the high rate of absence or lateness. Three-quarters of all staffs, whether clerical or operative, usually arrive at work on time and do not leave before the proper hour at the end of the day.

The absentee-rate for women is nearly always higher than that for men, in one case reaching nearly 14 per cent. Monday is always the worst day both for absenteeism and lateness at work, and pay day, upon whatever day of the week it falls, is always the best day. January is usually the worst month for absence through sickness, though a long period of inclement weather often coincides with a rise in the rate of absenteeism and bad time-keeping.

Successful production is usually planned production, and the work of each department depends upon the work of another. If a key man is late, even only a few minutes, in one department the work of his colleagues is held up; in consequence the work of other departments is also delayed and the lateness at work of one man may eventually result in the loss of many man-hours.

In some works a late or absent worker is immediately replaced by a substitute, but he might not be as skilled as the man whose place he is filling, and again a serious loss of production might result from the absence or lateness of one individual. The high degree of specialisation in modern factories makes this a frequent cause of loss of production.

Two hundred industrial organisations have been asked for their comments and suggestions as to methods of combating the evils of unauthorised absence and bad time-keeping. The replies indicate that while most managements are aware of the losses they sustain from these causes some are inclined to regard them as inevitable.

One reply from a large organisation in the North contained some surprising information. Workers in this industry, who work inside the factory and have the benefit of every amenity and comfort known to the Welfare State, have a substantially higher absentee rate than the outside staff who work in the open air summer and winter for longer hours and in worse conditions.

From Privately-Circulated Report of a Three-Years Study, March, 1953

U.S. Also Running Down Capital

BY GEORGE G. HAGEDORN
(*Assistant Director of Research, National Association of Manufacturers*)

The important report from which this extract is taken declares that 'four-fifths of the $20 to $30 billion annually invested by business in recent years has not been for expansion but for replacement; that two-thirds of retained corporate profits have gone merely for replacement of tangible assets; that the new capital supplied by stock issues has amounted on the average to less than $2 billion annually, and that corporate debt has increased from $85 billion in 1945 to $156 billion at the end of 1951.'

THE process of business finance in the period since 1945 has posed what seems to be an incomprehensible mystery.

On the one hand both businessmen and economists have been deeply concerned over the shortage of venture capital. They have warned that the consequences of this dearth would be either to restrict our economic growth or to pile up a dangerous burden of business indebtedness.

On the other hand business has, to all appearances, been through a period of unprecedented prosperity and growth. Although business debt has increased, the present level of indebtedness does not seem really serious in relation to other economic magnitudes.

The apparent record of business health and business growth in recent years has been so impressive that warnings about 'the venture capital shortage' have not been taken very seriously. It has been felt that there could be nothing much wrong with a business system which is able to spend between 20,000 and 30,000 million dollars a year for new plant and equipment. The small amount of new equity investment is (according to this view) perhaps regrettable, but its place has been taken by the enormous sums retained out of profits.

Customary accounting methods do not make full allowance for the effects of rising prices. The wholly unanticipated results of analysis of the process of business finance is a completely new perspective on the pattern of business finance since 1945. The commonly accepted generalisations turn out to be false or only partially true. The real key to the mystery of business growth amidst a shortage of venture capital lies elsewhere than has been supposed.

It is True . . . But

The new conclusions are so important that they are summarised here:

1. It is true that business has invested between 20,000 and 30,000 millions of dollars annually, in recent years, in new plant and equipment. But, about four-fifths of this amount has been required to replace the capital values currently used up. Only about one-fifth of business expenditures for fixed assets represents net expansion. This has not been generally understood, partly because one of the effects of inflation is that allowances made for de-

From Major Tendencies in Business Finance, National Association of Manufacturers, New York, 1953

preciation in business accounts are less than the actual costs of replacing the capital consumed.

2. It is true that the increase in the book value of business inventories has been at a rate of greater than 10,000 million dollars annually in certain years, and has averaged 8,000 million dollars annually since 1945. But, approximately half of this increase represents the additional cost of carrying the same physical volume of inventory at a higher price level. Only half represents a genuine increment to stocks of goods held by business.

3. It is true that the retained profits of corporations, as reported, have averaged about 10,000 million dollars a year since 1945. But, two-thirds of this reported amount have been needed simply to maintain the tangible assets of corporations since, as a result of the rising price level, adequate provision for such maintenance is not charged in current costs. Only about 3,000 million dollars annually have been available from this source for the net expansion of corporate assets.

Illusions Shattered

4. Even this small surplus of undistributed profits has been made possible only at the expense of a reasonable level of dividends. If dividends were increased so as to be the same percentage of national income as in the 1930's, the surplus of profits available for net expansion would be wholly wiped out.

5. The new capital supplied by stock issues has amounted to less than 2,000 million dollars annually in the post-war period.

6. The book increase in owners' equities in unincorporated business has averaged less than 10,000 million dollars annually since 1945. This is less than the amount needed to make up for failure of charges to current cost to provide fully for the maintenance of assets.

7. Although business accumulated large amounts of liquid assets during the war years, on balance these have not been drawn on, to any substantial extent, as a source of funds in the years since 1945. Apparently business has considered it necessary (or at least advisable) to maintain a substantial degree of liquidity.

8. The chief source of funds for expansion in the post-war period has been borrowing. Corporate debt has increased from 85,000 million dollars at the end of 1945 to 156,000 million dollars at the end of 1951.

9. One of the effects of inflation has been to reduce progressively the real burden of the outstanding business indebtedness. Business has borrowed large sums each year, but at the same time the process of inflation has reduced the relative burden of the already existing debt. The net effect has been to make the cumulation of indebtedness tolerable. This has occurred at the expense of the creditors of business.

These conclusions taken together, lead to a drastically revised appraisal of the soundness of recent business financial operations. We cannot be as complacent about them as we had thought. The usual incomplete statistical analyses have created an exaggerated idea as to the extent of business expansion and a false idea as to the manner in which it has been financed. The shortage of venture capital has had serious effects on the health of the economy, but inflation has suppressed the symptoms of the disease.

One result of inflation is to cause business accounting records to be misleading in regard to the extent of

business expansion and in regard to the manner in which it is financed. The real investment in inventories is exaggerated because of the rise in the unit prices at which they are carried on the books. The real expansion of plant and equipment is exaggerated since allowances for depreciation are based on prices lower than those now prevailing. On the sources side of the picture, the funds available for expansion are overstated. It would be natural to assume that the whole amount of retained profits as stated is available for expansion but in a period of inflation this turns out not to be so.

Inflation Arch-Deceiver

It might seem that, in these matters, inflation does not affect the actual course of events, but only the accuracy of the information we have on the course of events. But if policy making by government and business is at all rational it must certainly bear some relation to fact or to what is accepted as fact. Inflation, through its effects on the accuracy of financial statistics, must be presumed to have had secondary effects on the actions of those who are guided by the statistics.

We can only speculate on what might have occurred if inflation had not distorted the recent record of business expansion and business profits. Would legislators have been quite so ready to raise the rates of taxation on profits if they had realised how much of those apparent profits was needed merely to replace assets? Would businessmen have been quite so satisfied with their acquisitions of plant and equipment if they had fully understood how small a margin actually represented net expansion? Would economists have been quite so complacent about 'the venture capital shortage' if they had not had exaggerated notions of the extent of business expansion since World War II?

Road to Ruin

The cause-and-effect relationship between inflation and *business debt* is much clearer. Here it is not a matter of misleading information, but of a direct connection which runs both ways—business borrowing affects inflationary forces and the course of inflation affects the burden of business debt.

In recent years business has financed the expansion of its assets to a large extent by borrowing. In the course of this process business has approximately doubled its indebtedness since 1939. But the simultaneous doubling of the price level has kept the 'real burden' of business debt at approximately the same level.

Thus a peculiar combination of circumstances has made business borrowing necessary and at the same time has tempered the effects of borrowing *on the business firms which resort to it*. Does this mean that businessmen should view the progress of inflation with satisfaction, and hope for its continuation? This would be a short-sighted position and not many businessmen are likely to take it. Businessmen would rather finance their activities through more normal capital-raising procedures than through the losses imposed on their creditors by inflation. The health of business is wrapped up with the general health of the economy. The continuation of inflation could only lead to a general economic catastrophe which might very well destroy our business system as we know it.

If inflation is halted—as all sensible people hope it will be—then it must be assumed that the 'real burden' of business debt will continuously increase if business continues to borrow.

On the other side of the coin, an increase in business debt, like any other expansion of credit tends to intensify inflationary forces. Thus, no matter how the question is viewed, it is impossible to regard with complacency a continuation of the expansion. The question then is what alternative sources are available. New contributions of equity capital—in the form of stock issues and investment by proprietors and partners—have been only trivial in amount. General economic conditions have evidently not been such as to encourage risk-taking or equity investment.

Today's Central Problem

The final conclusion is that, unless the supply of venture capital is increased, either one or a combination of the following results must ensue:

1. Business expansion must cease, or

2. The real burden of business indebtedness must increase, or

3. Inflation must continue, thus reducing the real burden of debt.

All three of these alternatives are equally undesirable. But they are inescapable, unless certain changes occur in the general economic climate. This, then, is the central problem of present-day business finance.

DON'T MENTION BUTTER TO THE PRESIDENT *(continued from opposite page)*

national emergency, all indications point to butter being priced more and more out of its former market and the Government being forced to carry forward purchases up to a total which before the end of the summer may exceed 250 million pounds. Like potatoes in 1950, these stocks will be difficult to dispose of without large losses.

Despite these prospects, Secretary Benson has decided to continue support of dairy products at 90 per cent of parity for another year. In support of this action he stated in the April issue of the Farm Journal:

> Dairy farmers' costs are pegged high. Feed has a support price under it—a rigid price. [Corn is supported at 90 per cent of parity while the rate on other feed grains is 85 per cent.] Labour is scarce and costly. There is no immediate way for dairymen to get those costs down. Leaders of the industry merely asked for time. 'Give us a year', they said, 'and we believe we can work out something requiring but little government help.'

Mr Benson fully realises the difficulties ahead. On March 5 in a letter to Senator George D. Aiken, Chairman of the Senate Committee on Agriculture and Forestry, and to Congressman Clifford R. Hope, Chairman of the House Committee on Agriculture, he declared:

> Despite our decision in the Department that dairy supports should be continued another 12 months at the 90 per cent level, I nevertheless have also tried to make it plain that I have misgivings as to any programme which simply accumulates surpluses without any real methods of disposal in sight.
>
> This dairy decision does not set a precedent for any other commodity, or for dairy products for another year for that matter. It is my firm belief that each case must be decided upon its own merits, further reinforced by the strong feeling that farmers need in every case seriously to consider as to whether continued high flexible supports may not in fact help destroy the very markets upon which they must always depend for their livelihood.

Don't Mention Butter to the President

He has got 110 *million pounds he cannot get rid of and is still pledged to buy more and more.*

THE current accumulation of surplus butter under the government price support programme brings back unhappy memories of the fiasco with potato price supports only a few years ago.

As recently as 1950, housewives will recall that food markets had few potatoes for sale, and those undersized and low-grade, while potatoes of better quality, acquired by the Commodity Credit Corporation at the taxpayers' expense, were being destroyed or sold back to farmers at a nominal price for use as livestock feed. Public indignation was aroused and the end result was the collapse of the scheme. Potatoes today are bought and sold in a free market.

Now the Commodity Credit Corporation is acquiring large stocks of butter. Since late November, when the current buying programme started, government butter purchases, during this non-flush producing period, have exceeded 132 million pounds. While some of this butter has been disposed of or set aside for the school lunch programme, latest reports indicate that government holdings run beyond 110 million pounds.

The normal seasonal expansion of butter output promises an even more rapid accumulation in the weeks ahead.

This butter accumulation is the consequence of a high price support policy when free market forces indicate that lower production of butter is in order. Butter, of course, is a commodity which has lost ground to margarine, both in production and in consumption. Since the pre-World War II years, butter output had declined about one third, while margarine production has more than tripled. In fact, 1952 margarine output, some 24 per cent over 1951, exceeded creamery butter production for the first time.

While creating the problem of disposing of large stocks, the Department of Agriculture, by supporting prices at 90 per cent of parity, is also accentuating the butter problem by discouraging its use. With a lower price, some additional butter would undoubtedly find a market.

On the other hand, consumption of coloured margarine, which on July 1 will be legalised for sale in all but three states, is being accelerated by its relatively cheap price, retailing from 25 to 30 cents per pound, about one third the price of butter. Continuation of a price spread of this size will further encourage the use of margarine at butter's expense.

Marketing Madness

More important in the long run, high butter supports are deferring desirable shifts in production and marketing.

For example, reduced output of cream for butter manufacture would permit improvement in the quantity and quality of fluid milk to meet the needs of a growing population.

Thus, barring a drought or other

Continued on opposite page

From Monthly Letter, National City Bank of New York, April, 1953

Eisenhower Administration in Action

WHAT IT IS DOING—AND WHY

BY JOSEPH A. LOFTUS

Here is a statement of America's dearer-money policy, its aims, hopes, and dangers. Severe criticisms of it by Professor Seymour Harris were published in the last number of Economic Digest.

THIS is a report on what the Eisenhower Administration is doing, and why. The wisdom and possible consequences are things that some of the best economists in the country cannot agree on.

The Federal Government owes about 267,000 million dollars. This is mainly the result of financing two great wars and strengthening the free world against a third one.

The debt never stands still. Interest costs alone run into several billions a year. The debt is falling due this year, for instance, at the rate of 32,000 million dollars every ninety days.

The Treasury is not in shape to pay this off; its income is too low, compared with expenses. What does it do? It goes through a series of operations known as refunding. It sells short-term bonds (a form of borrowing) at very low interest rates. It sells Defence Bonds and other securities with a higher rate.

Now—and this is the crux of the new policy of debt management—it has issued a 1,000 million dollars' worth of thirty-year bonds paying an interest rate of 3¼ per cent. This raises the Government's long-term borrowing cost to the highest level since 1933.

There is no doubt that the Government is paying more to hire its money than is necessary. There is also no doubt that, as a consequence of this policy, a family that wants to build a home or buy a car on the instalment plan, or a corporation that wants to borrow to buy or build new equipment, will have to pay a higher interest rate than it formerly would.

Why Pay More?

Why should the Government pay more than is necessary to hire money? There are several reasons. First, this Administration has a free market philosophy. It believes Government securities should take their chances in the money market with other securities—state, municipal, and private.

Second, the Administration believes in 'tight' money, as opposed to 'easy' money, practices which it accused the Truman Administration of indulging in.

The theory is that anything but a 'tight' money policy tends to be inflationary; that if the interest rate is raised, credit—the equivalent of money—will be harder to get; that if money is harder to get the result will be a halt to ascending prices, if not lower prices, and that therefore the dollar becomes stabilised, if not more valuable.

Hence, the theory goes, even though the Government has to pay a little more to borrow, the dollar it spends for defence and other purposes, and the dollar that the con-

From New York Times, April 26, 1953

sumer and the corporation spends, will buy more.

Finally—and this is part of the anti-inflation theory—the long-term, high-interest bond means that the Government is borrowing people's savings instead of borrowing from commercial banks. The chief purchasers of the long-term bonds are insurance companies, savings banks, and pension funds, all holders of people's savings. This cash, through the bond purchases, passes into a non-liquid state and the fuel of inflation is thereby diminished.

When, however, the Government borrows from commercial banks, it issues short-term securities which are readily and certainly convertible into cash. This kind of reserves increases a bank's lending power. Lending creates money, and the threat of inflation is thereby aggravated.

Federal Reserve Policy

This ties in neatly with the policy of the Federal Reserve System, which has the responsibility for regulating the supply of bank credit, or money, in the interest of economic stability. Until about two years ago, the Federal Reserve, which is supposed to be independent, collaborated with the Truman Administration in a monetary policy which its critics call 'deliberately inflationary'.

This collaboration consisted of buying Government securities in order to keep the price up to par. With the price thus guaranteed, the Treasury could sell these securities at a low interest rate.

This reduced the Treasury's debt-carrying costs, but the objection to it was that it aggravated inflation.

Two years ago the Federal Reserve System and the Truman Administration reached an accord which provided that the System would be free to withdraw its support first from short-term and later from long-term issues.

Enter Eisenhower's Team

From then on, interest rates have been slowly rising. When the Eisenhower Administration came on the scene, the new monetary policy had already been in effect twenty-two months. It is the kind of policy the Administration wants and is willing to take responsibility for; it fits in nicely with the debt management policy of putting more of the debt into the public's (non-bank) hands at higher interest rates.

What are the possible dangers of this policy?

First, the timing may be bad. The business men running the Treasury believe that the Government should have adopted these anti-inflation devices years ago. It follows that they may be too late; inflation may have run its course.

True, there will continue to be Government spending in excess of income for a while to come, and that is inflationary. It is also true that corporations are still projecting plant and equipment investment at a high level, and that employment and incomes are at record peaks. These mean inflationary pressures.

Second, if the threat is still one of inflation, and the high interest rate effectively curbs it, the consequences may still disturb many people. The price of stability, for example, may be three or four million unemployed.

So we have a monetary policy and an opposition view, and obviously there is much to be said on each side. The conclusive answers will have to await more experience.

Why the Buyer's Market will continue

BY HEINZ HEIMANN

The basic downward trend of commodity prices since the 1951 *Korea boom is firmly established. Nothing less than new wars can arrest or reverse it this year or next.*

Two years have passed since the 'Korea Boom', in a number of ways the wildest and most perplexing boom in international commodity history, reached its peak and gave way to a recession.

This recession has been less dramatic, but not less thorough, than the preceding upswing. By the beginning of 1953, the general commodity price index numbers had reverted to the levels they had shown on the eve of the Korean war in June 1950.

But this 'squaring of the account' has, obviously, not closed the current chapter of market and price movements. Most markets continued throughout the winter to display a drifting tendency and there appears to be some evidence that world prices for primary products, industrial raw materials as well as basic foodstuffs, have, at long last, begun to move towards a new economic balance that had, ever since 1946, been expected and predicted by Governments, producers and traders alike, but was never even distantly attained.

Powerful forces are at work to prevent a return to fully competitive conditions, but only a revival of political fears—a threatening extension of the wars in the Far East or growing frictions in other parts of the world—could arrest, and reverse, the present pressure on markets and prices in the current year or in 1954.

With prices uninterruptedly on the decline for over two years, secondary rallies on a growing number of markets are bound to become more frequent and more extended. But the basic downward trend of commodity prices as a whole, that has been in evidence since March 1951, appears to be still very firmly established. Temporary upward adjustments in some prices following the lifting of certain price controls in the United States, which failed for more than two years to take account of changes in costs, cannot alter this general conclusion.

Causes for the Price Decline

In retrospect it is not difficult to isolate the chief influences that have arrested, and reversed, the 'Korea boom' of the early months of 1951. Improvements in supplies played hardly any role in the early stages of the recession. What did change, and change thoroughly at that, in the spring of 1951, was the state of demand.

Stockpiling in the United States was placed on a new basis. In recent months this new policy has been pushed a step further; the ultimate objectives have been reduced and the placing of new stockpile contracts has fallen well behind expenditure on deliveries under old contracts. This change in United States stockpiling was, in 1951, supplemented by more effective physical controls in the

From The Return to Buyer's Markets, Quarterly Review, Skandinaviska Banken, Stockholm, April, 1953

main consuming countries, including the United States and the United Kingdom, and by the limitation of buyers' competition through the actions of the International Materials Conference.

The resulting calmer atmosphere found its reflection in the approach of civilian demand, especially as some civilian industries, headed by textiles, ran into difficulties.

Moreover, in the latter months of 1951, it became increasingly obvious that the defence programmes of the Western countries, drafted in great urgency under the impact of the Korean war, clashed with the tasks of maintaining a sound economic equilibrium. By the beginning of 1952, it had become necessary to stretch out the completion of these programmes over a considerably longer period and these revisions have since been extended on several occasions.

The resulting shifts in demand proved sufficiently powerful to create a new 'climate' in the world markets, especially of industrial raw materials, but their influences would have exhausted themselves long ago but for the advent of two new features in the international commodity position in the course of the past year, an improvement in supplies and adjustments in economic policies in general and in commodity policies in particular.

In the course of 1952, production of minerals began to advance as a result of the emergency measures initiated during the 'Korea boom' in 1950 and early 1951. This increase has not been extensive but it went far enough to overcome prevailing shortages. In the sphere of farm staples the improvement in supplies proved far more thorough. The last crops for a number of key food staples, including cereals, sugar, some fruits and world production of meat attained new record levels.

For the great majority of other primary commodities current world production, though below past 'peaks', proved sufficient or more then sufficient to meet all current needs.

Changes in Economic Policy

The impact of these improved supplies on world prices has been powerfully supported by changes in policy in the main Western countries and especially in the United States and the United Kingdom.

The return to policies of stricter economic discipline—the adjustment in monetary policies—in spite of its relatively limited scope so far, has made a very strong impression on commodity markets. It limited the interest, and ability, of consumers to finance large stocks and forced producers and stockholders to sell more freely in order to maintain a reasonable measure of liquidity.

The resulting drift in prices, in itself, lent new weight to the accumulating pressure. Buyers became increasingly price-conscious and, by the autumn of 1952, current demand for primary commodities had shrunk to the lowest level since the end of the second world war, except a few months in the spring of 1949, when a slight decline in industrial activity in the United States found a rather excessive reflection in world demand for industrial raw materials and basic foodstuffs.

These changes paved the way for a progressive suspension of the physical controls, imposed in most countries in 1950/51, as well as a gradual disappearance of the needs for the channelling of supplies. Allocation of products for the majority, re-

garded as scarce twelve months ago, has ceased and, by today, the International Materials Conference, in its present set-up and scope, has outlived its usefulness. In September 1952, indeed, the conference began a process of self-liquidation by the dissolution of three of its seven commodity committees and the limitation of the work by the remaining four.

VITAL FUNCTION OF FREED BRITISH MARKET

Fundamentally a still more important and powerful, though so far not yet fully extended, new factor is to be found in the changed approach of the British Government towards the revival of free trading in industrial raw materials and basic foodstuffs.

Truly remarkable progress towards freer trading in Great Britain has been achieved since the end of 1951. The most important measures so far include reversions of trading from the State to private sources of timber, fertilizers, certain oilseeds and their products (linseed and illipe nuts), most animal fats (except lard), lead and zinc, as well as a partial revival of private trading in raw cotton, coffee and sugar. At the end of the current crop year the list will be extended to cereals and animal feeding stuffs and additional measures are in a state of advanced preparation. Indeed, in a parliamentary debate on supplementary estimates for public trading purposes, on January 26, 1953, the Minister of Materials confirmed that it was the policy of the Government to discontinue public trading of given commodities when their supplies become more abundant and prices show a tendency to decline.

The decontrol measures in the United Kingdom are of overwhelming international importance. The United Kingdom is not only the world's largest importer of the great majority of industrial raw materials and basic foodstuffs; until the outbreak of war in 1939, the majority of representative world prices were determined in London, Liverpool and some other British centres.

The main explanation for this somewhat remarkable state of affairs was not primarily tradition or influence but the absence of serious competition from the younger trading nations. In the only country which could have replaced Great Britain as the world's most representative commodity marketing centre, namely the United States, pre-conditions worked strongly, and effectively, against the development of a truly international market system.

Since the early 'thirties, even some of the agricultural markets in New York and Chicago, which had attained world supremacy, lost a great deal of their international influence because they came too much under the spell of the domestic agricultural price support policies which tended to isolate United States prices from those in the rest of the world.

Formation of Post-War Prices

These conditions resulted in widespread dislocations in international trading and prices for primary commodities when, after the end of the second world war, the British Government refused to revive the markets in the United Kingdom that

were closed on the outbreak of or during the war.

The lack of a representative international marketing system, indeed, proved one of the most powerful influences in the establishment, and maintenance, of prices that were obviously excessive on any standard of economic measurement. It played the more forcefully into the hands of speculators and monopolists because State trading, especially in Great Britain, attained, since 1945, proportions unprecedented in times of peace and brought too many non-economic considerations into play.

In the first six years after the second world war, indeed, the so-called 'world prices' were almost exclusively the result of unilateral demands by a few big suppliers or the outcome of bulk transactions between large (frequently State) buyers and large sellers. Even in the phases of outspoken shortages and, thus, of strong seller's markets, the individually small but, in their sum total, very large supplies from smaller producers channelled through representative international commodity exchanges could have provided a powerful correcting influence in the determination of world prices.

Practical experience has proved time and again that changes in international commodity prices in either direction tend to be always decisively influenced and frequently made by relatively limited supplies from a great number of odd sources. Owing to the closing of markets in Great Britain, and the failure of other centres to overcome the resulting gap in the international marketing machinery, the influence of these supplies from smaller sources has, in the first six post-war years, been completely brushed aside.

The revival of free markets in the United Kingdom, accordingly, represents one of the most important and most constructive steps in international commodity history since 1945. In spite of all economic and financial setbacks of the Sterling Area since 1939, and the limitations imposed by them on the British Government and economy, the revived markets still attract a wide measure of business simply because they offer facilities which do not exist elsewhere.

The actual volume of trading through the re-opened British commodity exchanges is bound to be smaller than it used to be between the wars because, quite apart from all national economic considerations, direct trading between producers and consumers has made considerable progress in the last decade and a half. But even these direct trading transactions must be based on an agreed price and these prices will, now that free markets are being re-opened in the United Kingdom in growing numbers, be kept in check by open market forces.

What this means in practical terms has been clearly demonstrated by the markets that have been active so far. Prices for the main Sterling commodities have for a long time (disregarding the short-lived and unnatural phase of the 'Korea boom') been relatively much lower than Dollar commodities because they have been determined by open markets, while Dollar staples were either officially supported (farm products) or fixed by their leading producers (minerals).

Indeed, when the British Government gave its consent for the revival in London of certain markets for dollar products (lead on October 1, 1952, and zinc on January 2, 1953) prices came under immediate pres-

sure and even forced producers in the United States to reduce their domestic prices, because their hold on the markets, which was unchallenged for years on end, had, at long last, been undermined through the competition of London.

Towards Normal Economy

Of course, free markets can raise, as well as depress, prices and, until the newly revived markets have found time to adjust themselves to the prevailing conditions, somewhat wider fluctuations in prices can well be expected.

Still, for the first time since the end of the second world war, world markets for industrial raw materials as well as basic foodstuffs have attained all the representative features of genuine buyer's markets. Supplies are improving, consumers are holding back, competition between civilian and defence requirements has been virtually eliminated and, while current world consumption of most commodities still shows a high level, the less promising prospects for 1954 will soon begin to cast their shadows before.

But the marked decline in State trading and the progressive revival of commodity markets in the United Kingdom since the beginning of 1952, has cleared the way for a wider adjustment in world prices than the mere 'shedding' of the unnatural gains made during the 'Korea boom'. These moves are tantamount to a removal of the artificial props that have, from 1945 to the outbreak of war in Korea in 1950, facilitated uneconomically wide advances in world prices and prevented adjustments to more economic levels even after the post-war shortages were overcome.

Putting Japan on its Feet

THE Japan Chamber of Commerce and Industry makes the following recommendations:

1. Establish a joint Government and civilian body on a supra-partisan basis with overriding powers to push a consistent and firm policy on foreign trade.

2. Improve international economic relations by positive participation in all international economic conferences, swift treaties of commerce with as many countries as possible, continued pressure to join the General Agreement on Tariffs and Trade, establishment of a multiple trade settlement formula, and economic co-operation with, and technical aid to, South-East Asian nations.

3. Lower export prices by rationalisation of equipment and methods, and by preferential allocation of foreign currency for the import of raw materials.

4. Authorise drastic revision of excessively liberal labour laws.

5. Foster foreign exchange banks, trading firms and shipping companies.

6. Co-operate with other Asiatic nations in the establishment of a central bank to be used commonly by Asiatic peoples to conduct their trade.

7. Improve monetary and insurance systems.

8. Effect positive measures for opening up markets overseas.

From Report to Goverment, by the Japan Chamber of Commerce, Tokyo, May 3, 1953

India's High-Cost Economy

High production costs and export duties are pricing textiles and jute out of the market. Responsibility 'rests fairly and squarely on the Government of India'.

If a partial international recession is in the offing, it is common wisdom to see how far we are prepared to weather the storm. Slowly, all too slowly, we are being forced to realise that we enter the race for international markets with a serious handicap. Our costs are too high.

We are already losing our cotton textile markets slowly to Japan; in jute goods, there is now significant world-wide competition. We do produce the cheapest steel, nearly the cheapest cement, reasonably cheap sugar, and (without the export duty) almost the cheapest cotton textiles. But all except the last of these do not figure largely in our exports, and so long as the export duty on cotton textile remains, it is unlikely that we will hold even what we have now got.

There has been a significant drop in the value of our exports in the year 1952 against 1951. India's total exports in the calendar year 1952 amounted to Rs. 617 crores against Rs. 767 crores in 1951. In the first phase of the recession our exports, therefore, were severely hit, in value by something like twenty per cent. Is there any reason to believe that in the second round we shall fare any better?

The prices of some of our leading exports are certainly lower today than they were over 1952 as a whole. The reduction of the hessian duty to Rs. 275 per ton last May and the reduction of the sacking duty to Rs. 80 per ton this February might appear to have solved our problem on jute goods. But it has not. The Indian Jute Mills' Association, unable to sell its current production on a 42½-hour week at current prices has asked for, and has been refused, permission further to restrict its hours.

A delegation of the Indian Jute Mills' Association has left for Australia in a belated attempt to discover the real reasons for the flop in Australian demand. And, curiously, while the Indian Jute Mills' Association is crying out for a reduction in hours because of shortage of demand, round the world, and almost round the clock, jute mills are springing up in other countries.

If international demand is so slack, why are other countries piling on production, while we cut it off? The Government of India and the Indian Jute Mills' Association will need urgently to search their hearts; is not the encroachment on the markets of Indian jute goods by other countries a clear pointer to the fact that here at least our costs are out of line?

Seeing Jute Clearly

The position on jute goods should be clearly stated. In the last few years, Dundee has made great inroads into our market in the United Kingdom; Dundee is now arranging to enter with Continental mills in the United States market. The Continental mills in the year 1953 are

From Eastern Economist, New Delhi, April 17, 1953

succeeding in their plan to provide a minimum of 15 per cent of the United States requirements in 1953. Japan is selling its exportable surplus to the United States where also the first output of Pakistan's well-equipped mills is arriving. The Philippines have opened one large factory; have others in the blue-print stage and are striving for self-sufficiency in jute bags. Thailand, whose yearly requirements are 20 million bags mostly for rice, has planned expansion of raw jute production and additions to the jute mill industry now operating. Angola, Portuguese East Africa, is constructing two jute factories using indigenous fibres which will produce sufficient bags for their entire requirements. Australia is experimenting with Kenaf fibre and is planning its own factories to provide for its sacking requirements. Brazil is likely to emerge as a large competitor; she has large loomage already and is held back by her cost structure; fortunately held higher than our own. If Brazilian prices can be made flexible, here is danger at its worst.

Government Held Responsible

Obviously, this is not a situation in which brazen risks can be run. Hitherto attention has been concentrated on India's export duties; but can it be said that, after export duties are removed, Indian jute goods will hold their own?

Cutting production and hours only transfers demand to India's competitors. And, of course, it raises costs because overheads and wages per unit of production both increase. What the jute industry, even more than any other industry needs, is flexibility in costs. What the jute industry—as well as every other industry in India—is least likely to get is flexibility in costs.

The main responsibility for this situation rests fairly and squarely on the Government of India. It is the Government of India in the Ministry of Labour that has stopped any reasonable attempt at rationalisation, which might lead to some, even temporary, unemployment. It is the Ministry of Finance which, by the removal of the food subsidies, has imposed on Indian industry as dearness allowance a surcharge which has raised labour costs (without any increase in productivity per man) by anything from five to ten per cent. It is the whole Cabinet which is responsible for increasing costs by measures designed to produce the Welfare State.

Managements, it is true, have also not shown themselves very adventurous in reducing costs while profit margins were high and the Government bore, by implication, nearly half the cost of welfare measures.

Autarky is Lunacy

A recession is no time for political prejudice; it is essentially a time for economic realism. If we resolutely refuse to recognise that our capacity to export is being seriously impaired, we shall end by paying the price in an uneconomic self-sufficiency, where we have to live unto ourselves because we cannot find the foreign exchange to buy cheaper products others have to sell.

The logical end to a high-cost economy is self-sufficiency. But this kind of self-sufficiency is economic folly. It is essentially the consolation of the weak. And there is irony even in this escape from competition. With our export duties we could at least tax a foreigner to some extent; with self-sufficiency we will only tax ourselves.

The World's Motor Vehicles

At the beginning of 1953 there were 76.1 million motor vehicles in circulation in all countries. This is 3.3 million (4.2 per cent) more than the previous record number, reached a year earlier.

Over the period 1947-1952, the annual increase averaged 5.5 million units, and although last year's rise was smaller as a result of the slowing-down of industrial expansion in many countries, it is noteworthy that the increase was world-wide, and the pace of development was fastest in the less developed areas of the world.

The estimated increase of 3.3 million in 1952 is in respect of the free world only. Since motor vehicle production in the free world in 1952 totalled 7.8 million units, it can be deduced that 4.5 million (3.5 million cars and 1 million commercial vehicles) served to displace old units. On this basis, last year's displacement rate in the free world was about 6 per cent both for cars and for commercial vehicles.

1927-40 and 1940-53 Compared

The number of motor vehicles in circulation is 31½ million (70 per cent) larger than at the beginning of World War II, the number of cars having increased by 21.7 million (59 per cent) since 1940, while the number of lorries and buses rose by 9.7 million and has more than doubled.

Within the preceding thirteen years—from 1927 to 1940—the number of cars increased by 12.8 million (55 per cent), and the number of lorries and buses by 4.2 million (100 per cent). There were 23,371,000 cars and 4,220,000 lorries and buses in circulation on January 1, 1927.

Thus, notwithstanding the larger numbers involved and despite the war-time restriction and losses, the rate of growth was slightly larger in 1940-53 than in 1927-1940. This is perhaps the more remarkable in that early in 1947 the total number of motor vehicles in circulation was only slightly higher than in 1940, while the number of passenger cars was actually lower. The increase would be slightly higher if all military vehicles were included in the statistics; they are included only for some countries.

The period since World War II has witnessed a remarkable growth in the number of motor cycles and of farm tractors. *The American Automobile* estimates the number of motor cycles at the beginning of 1953 at 6,057,000 and that of farm tractors 6,774,000.

Geographical Distribution

The percentage increase in the number of motor vehicles in 1940-1953 has been smallest in Europe where owing to the aftermath of war and to motor fuel rationing there has been a rise of only 40 per cent. The number of vehicles has gone up by 72 per cent in the U.S.A., which is about the same proportionate increase as in the world as a whole. Though the numbers involved are very much smaller, motor vehicle registrations have gone up proportionately faster in Canada and Oceania, also in the continents of Asia, Africa and Latin America.

The distribution of motor vehicles throughout the world is marked by

From Petroleum Press Service, London, May, 1953

striking contrasts between various continents. About 73 per cent of the world's vehicles are in the U.S.A. and Canada, where altogether only 171 million out of the world's 2,400 million people live. Taking these two countries together, the average density is nearly one vehicle for every three persons.

North-Western Europe, with 196 million inhabitants, accounts for 13 per cent of the world's motor vehicles, and for nearly half the number outside North America. Australia and New Zealand, with only 14 million inhabitants, have over 2 million vehicles.

In North-Western Europe—as also in the Union of South Africa—there is on average one vehicle for every 20 persons, though there are substantial differences between individual countries. As to the remainder of the world's regions, the density varies between one vehicle for 75 persons in Latin America as a whole, and one vehicle for 783 persons in Asia. Half the world's population, but only one-fiftieth of all motor vehicles, are in Asiatic countries.

Passenger and Commercial Vehicles

Three-quarters of all motor vehicles are passenger cars. Their proportion is over four-fifths in the U.S.A. where nearly two out of every three families have a car or, in an increasing number of cases, two or more cars. Almost everywhere else, the share of cars in the total number of motor vehicles is well below, often far below, the proportion in the U.S.A. In general, it may be said that the smaller the relative number of motor vehicles per population, the higher is the proportion of commercial vehicles to total vehicles.

In Asia and Central Africa, there are fewer cars than lorries and buses. The U.S.S.R. and, to a lesser extent, the other Iron Curtain countries, are a special case as the production of lorries has been boosted, and that of cars has been restricted, as a matter of policy. It is estimated that U.S.S.R.'s output is 450,000 vehicles a year which means that she may be the world's largest producer of commercial vehicles after the U.S.A.

ROAD ACCIDENTS (*continued from opposite page*)

trial economy will be based, to an increasing degree, upon road transport, while personal travel by road will inevitably grow, even if it be at the expense of travel by rail. Between 1929 and 1951, in spite of a long trade depression and the retarding effect of the war, the total number of motor vehicles (excluding motor cycles) in use in the United Kingdom increased from slightly less than one-and-a-half millions to more than three-and-a-half millions. Prolonged research in the tyre industry, in braking systems, etc., has made possible the growth in size, speed and weight, of motor vehicles of all kinds. At present the limiting factor is the road.

Economic progress if not, indeed, survival depends upon the provision and maintenance of an adequate road system.

A very large proportion of road accidents are of the kind that may be avoided if the right action is taken. There is no doubt, for example, that the present road system is an increasingly important factor contributing to the number of accidents.

Road Accidents

MORE SERIOUS PROBLEM THAN UNEMPLOYMENT

BY PROFESSOR J. HARRY JONES

LONG before the war many professional economists devoted much study and research to the problem of unemployment. We felt that if public authorities concentrated capital expenditure upon periods of depression, industry would be kept on a more even keel and unemployment would be reduced. We believe that the outstanding type of capital expenditure suitable for this purpose was expenditure upon roads. Road development and maintenance should be subordinated to the need for providing employment to the unemployed of other industries; in time of pressure, following a devastating war, it could most easily be sacrificed. Among the 'priorities' it found no place, and was for ever on the waiting list. I confess that, along with many of my professional colleagues, I was wrong. We had neglected the study of road economics, and ignored the problem of road accidents which was even more serious than that of unemployment.

Road maintenance and development must be considered on its own merits, irrespective of the state of employment. The need for efficiency and safety cries aloud for a new orientation in thought and in action. Efficiency and safety are indeed so closely interwoven that they cannot easily be separated. An efficient road system is a safe system: an unsafe system is an inefficient system.

But old beliefs die hard and have largely influenced Government policy even since the war. Because human error has been reported as the primary cause of over ninety per cent of accidents it is assumed that road defects contribute but little to the total. But it is a false assumption, based upon a misinterpretation. In a sense it is inevitable that in nine out of ten cases human error should be the immediate or exciting cause, but the true cause is to be found in a combination of circumstances that create the situation in which the critical error is made and of which it forms part.

Post-War Problems

During the war many wondered what would happen when peace was restored; when garage doors were opened and old cars again appeared on the roads, now suffering serious deterioration; when drivers who had been off the road returned, suffering from lack of practice; when new drivers, trained upon half empty roads, suddenly found themselves on crowded roads; when army lorry drivers had to thread their way through lines of commercial vehicles and private cars.

Our worst fears were not realised. Petrol rationing, combined with the need to export as much as possible of the growing supply of new cars, checked the growth of road traffic, while the road safety campaigns must have fully justified the efforts of those who took part in the work.

But what of the future? The indus-

Concluded on opposite page

From The Child on the Road, Published for Children's Safety Crusade Trust, London, May 12, 1953

Future Role of International Monetary Fund

BY IVOR ROOTH (*Managing Director, I.M.F.*)

IN attempting to define the role of the Fund during the next few years we naturally look back at the Bretton Woods Conference, and ask ourselves how the basic concepts in the minds of the founders of the Fund have stood the test of post-war history.

The founding fathers of the Fund knew well that the post-war world would be full of difficulties and that it would have been naïve to attempt at that time to outline even the most tentative time-table for the successive stages of post-war recovery. It was not by accident that the presumed length of the 'transitional period' is nowhere formally defined in our Articles of Agreement.

In an imaginary 'normal' world, with more or less regular cycles in the volume and value of world trade, there would from time to time be temporary pressures on the balances of payments of successive groups of countries. These pressures could then be relieved by drawing upon the accumulated common reserves of the Fund.

In 1946 no one could predict when such a 'normal' world might emerge. No one at that time, however, suggested that the Fund should passively await this far-distant event. On the contrary, the decision was made that within the limits of its powers the Fund should play part in helping world recovery, and make its resources available to members under conditions still far removed from those of a theoretical 'normal' world.

Some of the founders assumed that the most serious risk against which insurance was needed was a world-wide depression. Instead of depression, however, inflation has been the disorder to which the world has been much more susceptible. Post-war balance of payments difficulties cannot be understood except in relation to the continuous impact of inflationary pressures. We shall not forget the risks of a recession, but the fight against inflation remains our main immediate concern.

This post-war disease has inflated the magnitude, measured in money terms, of all the important economic variables. This in part explains why the figures commonly used to measure the disequilibrium in post-war balances of payments often seem so large.

Proposals have sometimes been made for a revision of some of the Fund's Articles of Agreement. These Articles should not be regarded as unalterable. But they were not hastily drafted. Nor are they nearly so rigid as critics have sometimes implied. The provision permitting the Fund to waive conditions prescribed for normal use of its resources was presumably inserted in the Agreement with the intention that it should sometimes be used. Without any undue straining of the meaning or intention of the Agreement, interpretations have been found possible which permit a reasonable degree of flexibility of practice. There is probably little that it would be sensible for the Fund to do which its present constitution prevents it from doing.

From Address, Economic and Social Council of United Nations, April 13, 1953

Buying and Selling Gold

For more than a year the Fund has now been able, by putting members in touch with one another, to facilitate their purchases and sales of gold. Increasing use is being made of this service; each partner to a transaction is charged 1/32 of one per cent in dollars.

The Fund, which in the calendar year 1950 had sold no currency to its members, sold $34.6 million to two members in 1951, and $85.1 million to six members in 1952; so far in the early months of 1953, there have been purchases by two members, amounting to $20.7 million. In addition, drawings up to $53 million can also be made under stand-by arrangements concluded in 1952. Repurchases by members in 1952 amounted to $112 million, and in the early months of 1953 to $24.2 million. Since the beginning of its operations, the Fund has sold $917.8 million of foreign exchange to 22 members. Of this amount, $204.6 million has been repaid to the Fund.

Whether in the long run the present resources of the Fund will be adequate to satisfy all the calls that we should like to meet is a question that has been widely discussed. The answer depends in part on the view taken of the adequacy of the other reserve resources of Fund members, and on the measures that they themselves take to restore balance in their economies. The answer depends in part on the extent to which transactions in currencies other than the U.S. dollar become attractive to members. Our currently available resources are in any event certainly large enough for significant extensions of our activities.

Moral Duty of Members

Our best efforts will, however, be frustrated if Fund members do not realise the responsibility that rests upon all of them to adopt and to maintain domestic policies that will diminish the risks of serious disturbances in their international economic relations.

However, even if inflation were everywhere under control, this alone would not ensure the automatic emergence of a properly balanced pattern of world trade.

Since the end of the war there have been many far-reaching adjustments in world trade, and the necessity for such changes will always be with us. For example, most steps in the development of the productive capacities of the so-called underdeveloped countries, to which nowadays so much importance is rightly attached, also imply radical shifts in the customary flow of imports and exports. An increased willingness on the part of the major importing countries to liberalise their commercial policies is an essential condition for the smooth implementation of these adjustments. There is little encouragement to explore the possibilities of new markets in these countries, if even a modest increase in their imports enables domestic producers to secure protection.

The adjustments would also be a good deal easier if the disturbing effects of too rapid changes in official purchasing policies were better appreciated, and if there were a more adequate flow of international capital.

In our efforts to establish a stable international economic order, it should never be assumed that nothing can be done in one field until the appropriate measures elsewhere have been completed. Final solutions are never to be expected. The most that we can reasonably hope for is some

degree of progress simultaneously on a number of fronts and in a number of countries. No single device alone will solve the whole of the world's payments problem. But that fact makes it more urgent to press for some action in each of the fields of policy where some contribution can be made to its solution.

Development cannot be Bought

We are, moreover, all aware of the complex problems created by the wide divergences between standards of living in different parts of the world. Most of these problems must find their solution in fields outside the Fund's sphere of responsibility. The decisions of our members in respect of development policies are, however, also of interest to us, and we are anxious to co-operate with them in order to ensure as satisfactory results as possible. During the past year we have been able to undertake technical discussions of many of the issues involved with several member countries, including Brazil and India, and we hope to extend these contacts in the coming years. Mr Black, the President of the International Bank for Reconstruction and Development, pointed out some time ago that development was not something that could be purchased like a commodity if only enough money was made available. It requires, he said, both an expansion of organisational skills and other human capacities, which cannot be completed hastily, and the adoption of economic and financial policies that encourage the growth of production and of markets. It is satisfactory to note the increasing recognition in many countries of these basic principles.

Now that we are looking forward to a period of increasing Fund activity, it should always be remembered that the Fund is not something that stands apart and distinct from its members. The Fund is essentially a co-operative enterprise. A Fund decision is a decision by its members.

One of the declared purposes of the Fund is 'to promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems'. As more systematic use is made of the machinery created for this purpose, we may with confidence anticipate increased activity by the Fund and the wider and more resolute practice by its members of such policies, monetary, fiscal, and commercial, as will 'facilitate the expansion and balanced growth of international trade'. Thus the foundations for a stable world economy will be strengthened.

New Publications of United Nations and Specialised Agencies

Yearbook of Food and Agricultural Statistics 1952: *Part* 2. Trade FAO, Rome, 1953 (17s. 6d.).

The present issue of this standard work, bringing the data up to 1951, contains several valuable new features. For the first time a section on value of trade in agricultural products and requisites is included. Among other new tables are series on trade by crop-year for rye, barley, oats, maize and coffee, data on pork fats, tallow and other animal fats, and figures for trade in abaca and sisal. As in the preceding issues, full data are given for the individual major oilseeds and vegetable oils; it would make the picture of the fat situation even clearer if the summary tables (expressed in oil equivalent) could be expanded to show totals for the major producing and consuming countries.

Reflections on Econometrics

BY PROFESSOR G. L. S. SHACKLE (*University of Liverpool*)

ECONOMICS in the older-fashioned sense finds itself nowadays rather in the position of a legitimate monarch of retiring disposition who finds his authority challenged by the dynamic personality and boundless ambitions of a young brother, newly grown up and of somewhat doubtful pedigree. Econometrics, if we date its birth from the founding of the Econometric Society in 1930, is now twenty-two years old, and claims the throne by its descent from economics, mathematics, and statistics.

To an avowed legitimist this seems an inflated claim. As for the application of *mathematics* to economics, what of Cournot, Marshall, Wicksell, Edgworth, and Fisher, to say nothing of Walras and Pareto? As for *statistics*, what of Tooke, Newmarch, Stamp, and Sir Arthur Bowley? What, we might ask, is there new in econometrics except its name, which attains, as it were, the second degree of portmanteaux-ism by eliminating one of its essential *m*'s: surely it should be ECO/*nomo*/METRICS, or better, perhaps, metro-economics?

* * *

However, this insinuation is not fair. There *is* something new in econometrics; something that is not to be found in mathematical economics in the sense of Marshall's Appendixes, nor in economic statistics as understood by the great compilers of the past.

Mathematical economics is the expression, in rather general analytical forms, of hypotheses concerning the essential structure of the economic organism and the drawing of inferences from it. We are content to write $y = f(x)$ without specifying the precise sequence of operations denoted by the symbol $f(\ \ )$.

But the econometrician is *not* content with this. He wishes to write out in full equation, not merely with all its parameters explicitly represented by letters, but with actual numerical values assigned to them. And how right he is to want this. Mr Hicks has reminded us that if the numerical value of the coefficient which expresses the dependence of current net investment on a single earlier change of output is altered from a trifle less to a shade more than some critical value, the result will be altered from stability to explosion. In economics, quantitative as opposed to mere qualitative thinking is essential, and the econometrician is amply justified in seeking to test and to quantify the hypotheses of the qualitative economist (and this term includes the mathematical economist) by reference to recorded facts.

* * *

Yet the econometrician has suffered painful shocks and disastrous disinflation of his claims. What did he tell us about unemployment in the post-war transition? Why does he speak pompously of 'incomplete information' when all he means is uncertainty, that familiar spirit who walks with us everywhere? Does the econometrician realise that his references to 'incomplete information' imply that there can come within human reach and ken something that

From Economics and Sincerity, Oxford Economic Papers, March, 1953

could properly be called 'complete information'? And does he realise that *omniscience* has not, traditionally, been claimed by mortal man, at any rate in his more sober moments of decent humility?

Small wonder that this ὕβρις has sometimes fallen into the pit. For this phrase 'incomplete information' betrays a gross and cardinal error: the belief or supposition that, in real life, a man can ever know whether or not his information is complete. Does there not come to us, upon the echo of this phrase, a faint ripple of Homeric laughter rolling down from Mount Olympus?

The only problems where information can be known to be complete are those of the pure mathematician, the class of problems, that is to say, which we expressly define as being entirely unrelated to the world of external observation.

The econometrician is an applied mathematician: for him there never will and never can be information known to be complete. The forms of the functions which he has fitted, with the great labour and an ingenuity which we must all admire, to data supplied by observation, to data, that is to say, about the *past*, cannot be guaranteed to hold in the future. Economics is not physics, it is *psychics*, the study of men with all their capacity for learning and experimenting and inventing and imagining.

We are bound to applaud the econometrician for seeking to put numbers in place of letters in the formulae supplied to him by the theoretical economist, but we must warn ourselves that these numbers are not eternal truths.

ELECTRICITY CONSUMPTION TRENDS

Regions	Years	Consumption (1,000M of kWh)	Index Number	Consumption per Inhabitant (kWh)
Europe ...	1938	171	100	430
	1950	303	177	730
	1951	340	198	820
U.S.A. ...	1938	144	100	1110
	1950	390	271	2570
	1951	434	302	2820
U.S.S.R. ...	1938	40	100	230
	1950	90	225	450
	1951	103	257	500

NOTE: Great Britain's figures in this report are: Consumption (1951) 70,000M kWh, which is 212 per cent of 1938 consumption and 108 per cent of 1950 consumption; per capita consumption (1951) was 1,430 kWh.

From Recent Developments in Electric Power Situation in Europe, United Nations, Geneva, March, 1953

ARGENTINA

Anglo-Argentine Agreement on Non-Essentials

AFTER nine months of negotiation a new protocol to the five-year Anglo-Argentine Trade and Payments Agreement of 1949 was signed on December 31, 1952. Provision was made in the protocol for the export of 'non-essential' manufactured goods to Argentina to the value of £3m.; the composition of this precise quota was to be determined by a joint consultative committee by February 15. In fact, the composition was not announced till April 28.

In part justification of the protocol for 1953 it was argued that the granting of import licences for £3m. was of more substantial benefit—wretchedly low as the figure was—than the less precise promises to import manufactures to a much greater value which Argentina had consistently failed to fulfil. This justification still holds. But there will be keen disappointment in Lancashire that no textiles are included in the agreement. Argentina has announced that she does not intend to import any textiles, but that if this policy is reversed the United Kingdom will receive a share in the orders. The term 'non-essential' has become increasingly elastic in meaning in recent years, but certain items of the agreed list given below, may seem to remove significance from the phrase altogether.

The list includes: Office machinery; sewing machines; sound and cinematograph projectors; photographic material; light civilian aircraft and spares; spares for motor-vehicles; motor-cycles and spares; spares for bicycles; Diesel chassis for motor-vehicles; hand tools; still cameras; gramophone equipment and needles; raw materials for gramophone records; gramophone records; rubber manufactures; printed books; musical instruments; clocks, watches, and spares; tiles; china tableware; sports goods; equipment for the construction of model airplanes; high-quality crystal tableware; high-quality cutlery; flat glass; cotton thread; linen yarn; rubber yarn; linen sewing thread; hops; cloves and essences; ground spices for industrial use; aromatic essences and products; herrings and dried cod; tea and whisky.

From The Times Review of Industry, London, May 1953

Argentina's Trade Difficulties

THE distribution of Argentina's foreign trade among countries is remarkable for the extraordinary predominance of the U.S.A. as both a customer and a supplier of Argentina. The value of exports to the United Kingdom, traditionally Argentina's best customer, was little more than one half as much as that of Argentine exports to the U.S.A. and in the case of Argentine imports the contrast between the position of the United Kingdom and the U.S.A. is much greater, the value of imports from the U.S.A. being more than three times that of imports from Britain. The fall in Argentine exports to the United Kingdom was due to

From Review, Bank of London and South America, May 2, 1953

TABLE 1—ARGENTINA: FOREIGN TRADE
Millions of Pesos

Year	Imports	Exports	Balance
1948	6,189.7	5,541.8	— 647.9
1949	4,641.7	3,718.9	— 922.8
1950	4,821.1	5,427.3	+ 606.2
1951	10,491.7	6,710.9	—3,780.8
1952	8,360.6	4,346.8	—4,013.8

two causes: first, the fact that during a great part of 1952 no Argentine beef was being shipped to Britain; and, second, because Argentina, as a result of successive droughts in previous years, had very small exportable surpluses of cereals and oilseed to offer to Britain. The export products which Argentina normally sells to the U.S.A., namely wool, hides, quebracho extract and canned meats, were less affected by climatic adversities.

TABLE 2—ARGENTINA: FOREIGN TRADE BY PRINCIPAL COUNTRIES, 1951-52
Millions of Pesos

Imports From	1951	1952	Exports To	1951	1952
U.S.A.	2,199	1,537	U.S.A.	1,183	1,109
Brazil	956	881	United Kingdom	1,148	615
W. Germany ...	571	686	France	441	353
France	1,022	552	Brazil	704	323
United Kingdom	788	509	Sweden	179	282
Finland	258	434	W. Germany ...	459	225
Sweden	522	413			

New Publications of United Nations and Specialised Agencies

European Timber Trends and Prospects (25s.). *European Timber Statistics* 1913-1950 (12s.6d). FAO/ECE, Geneva, 1953.

A most thorough study, of interest to all concerned with problems of forestry and the use of wood.

Review of International Commodity Problems. United Nations, New York, 1953 (3s. 9d.).

Reports on a Special United Nations Fund for Economic Development. United Nations, New York, April 1953 (3s. 9d.).

Quarterly Bulletin of Steel Statistics for Europe, No. 10, ECE, Geneva, March 1953 (7s. 6d.)

The European Steel Industry and the Wide-Strip Mill.

A study of production and consumption trends in flat products. ECE, Geneva, 1953 (7s. 6d.).

Yearbook of Forest Products Statistics 1952. FAO, Rome, 1952 (18s.).

Commodity Series, Bulletin No. 21: *Dairy Products.* FAO, Rome, 1953 (2s. 6d.).

Commodity Reports: Grains, January 1953. FAO, Rome (1s. 3d.).

Sources of New Capital For Agriculture

BY THE RIGHT HONOURABLE LORD LUKE

PRODUCTION of food is a matter which should not require the stimulus of war to keep it efficient and prosperous, and the time has come when urban and rural communities ought to become more closely allied.

The attractions of urban life and the greater rewards to be won in the factories have continually been the means of denuding the countryside of its best elements all over the world in times of agricultural depression and especially in those countries where industrial development is proceeding rapidly. Even when prosperity returns (usually through an artificial stimulus) the flow of people in the opposite direction is not in the same proportion. The Argentine has produced the classic example of forced industrial expansion draining labour resources from agriculture with the discovery that to return those same people to the land is a difficult operation, when a dangerous situation arises from an unbalanced economy.

Unbalanced economies are things which creep up in the night to the astonishment of those who have been responsible for them, and curiously enough are caused sometimes by too much planning and at other times by too little.

Our own unbalanced economy was caused by the industrial revolution and was a boon to ourselves and the world at large until the present day when every other country has followed our example and is pressing forward with industrial development in competition with our own.

Long-Term Investments Needed

The partial solution of redressing the balance lies in the greater application of capital to the land in the form of machinery that will enable men to do tasks more easily and quickly and in giving farm employees better and more labour-saving houses—but the rest of the solution probably lies in a farming wage nearer to that of the factory. But where is the capital to come from? And can agriculture stand a higher wage?

Taking the capital question first—the prosperity of farming has undoubtedly led to increased equipment of the land with modern plant and machinery, and a good proportion of farms (in this country at any rate) are being cultivated and employed at their maximum capacity and efficiency. A certain amount of capital has been accumulated out of profits and tax allowances, and outside assistance has been forthcoming for the best managed estates or farms.

At the same time land remains uncultivated or unpastured simply because it needs capital expenditure of too heavy a nature to be borne by an individual since the prospect is that an adequate return will be apread over too long a period. This is a field where company financing should take a hand.

The monetary return from agriculture is slower and more uncertain than other forms of capital investment, but unless industry takes a hand in putting part of its reserves

From Presidential Address, London Chamber of Commerce, May 5, 1953

into food production and thus assisting agriculture through good times and bad, I fail to see how the quantity and quality of foodstuffs required by our populations are to be met in the future. The banks carry their share of seasonal financial requirements but the long-term capital element is not adequately provided for.

Whether agriculture can stand a wage equal to that earned in other industries depends entirely on whether food prices are to be kept up artificially or not; whether guaranteed prices are to be a permanent policy; or whether the farming industry is to be subject to varying world prices—fluctuations caused by crop successes or failures.

Alternative to Subsidies

Once more we find ourselves face to face with the debate between control and freedom. There are indeed many people who think that too much has been done for agriculture already.

Indeed, the United Kingdom has refused to sign the International Wheat Agreement because the price was too high—a break from planning. The point is that the United Kingdom could look to bumper harvests in the Southern Hemisphere for her wheat purchases, and was quite naturally uninterested in the American reason for high-priced wheat which was simply that American agriculture has to be subsidised to keep it prosperous.

Are then subsidies to be with us for ever? And must these always be a buffer between producers and consumers to keep the former in production, so that the latter may be able to pay?

I would prefer to see greater security for our food supplies, and the industry which produces them, achieved by a combination of more capital for development, with an intensification of research into methods for the conservation of a larger proportion of food products when there is a surplus.

NEW BOOKS REVIEWED *(continued from opposite page)*

Marketing: Text and Cases, by J. Thomas Cannon and Jack A. Wichert, McGraw-Hill Publishing Co. Ltd, New York, London, Toronto, 51*s*.

Both authors are practising marketing consultants, and both are former chairmen of the Marketing Department of the University of Kansas. Their declared aim is to make the study of marketing interesting, challenging and profitable. Their method is deliberately practical, so that the graduate student shall scarcely notice the transition from college to professional life. If the downright realism of approach is a shock to British readers, the moral is that it is perhaps time they were shocked. Anyway we have here a clear picture of what selling in the American market means.

Pharmacy Management, by H. W. Tomski, 64 *Boldmere Road, Eastcote, Pinner, Middlesex,* 7*s*. 6*d*. or $1.50.

The author is qualified academically both as an economist and as a pharmicist, and he is a lecturer at the Chelsea Polytechnic School of Pharmacy. His book would seem to meet a need since the man who is drawn to this profession often needs instruction on the shopkeeping side of his enterprise. The instruction here begins with 'Buying or opening a pharmacy' and works systematically through the whole range of business management.

New Books Reviewed

Utility and All That, and Other Essays, by D. H. Robertson. George Allen & Unwin, London, 18*s*.

Professor Robertson writes and publishes far less than most of our leading economists, and says with commendable brevity whatever he has to say. Who else would deal with The Problem of Exports in around 2,000 words, or think of himself as a hypothetical 'jollier-in-chief', or of defining our way of life as 'the characteristic English process of jollying along—of encouragements which are not quite promises, frowns which are not quite prohibitions, understandings which are not quite agreements'?

All the fifteen items in this volume are reprints of essays and addresses written in the post-war years. Every one of them is welcome in this more permanent form. We offer just two extracts to indicate the pleasure and the profit offered to the reader.

'Democratic socialism has found itself under a psychological compulsion to try to show that it can do, and do better, whatever totalitarian socialism can do; and, in imitation of the *x*-year plans of relatively undeveloped countries, a certain ideological snob-value, in excess of their nevertheless undoubted real importance, has come to adhere to what are described as "Basic" or "fundamental" industries.'

'If anything can be said to have broken down, it is, I think, not capitalism, nor for that matter socialism, but something a little harder to describe in terms which are familiar to the ordinary man. It is the idea that a country dependent on foreign trade can allow a complete divorce between its internal and external monetary arrangements. It is the notion that Central Authority can abdicate from what, even in the heyday of *laissez-faire*, was held to be one of its primary functions, the safeguarding of the country's standard of value, and can yet prove an efficient administrator of the country's external economic relations. It would be an exaggeration to say "Look after the pounds, and the dollars will look after themselves"; but it may be the beginning of wisdom to act as if it were true.... If anybody is going around with a kit of tools wanting to repair something, here is something for him to repair.'

Contracts and Finance, by W. Ashworth. H.M. Stationery Office and Longmans, London, 1953, 22*s*. 6*d*.

This is another important volume in the official 'History of the Second World War' series. Its main topics are the exercise of financial control over the activities of the Supply departments, the attempt to devise a suitable price policy for war stores, and the provision of capital for war-production firms. It will be apparent therefore that the book has a double value—as a record of past experience and as a guide to current and future problems, for post-war conditions of controls have given permanent importance to several of the problems here discussed. We would gladly make the chapter on 'The Course of Policy: Some Causes and Effects' compulsory reading for politicians, and would be heartened to know that, having read that, they would of their own volition read much more.

World Production and Raw Materials. Royal Institute of International Affairs, London, 1953, 7*s*. 6*d*.

Mr Ronald Brech of *The Economist* has played a big part in the production of this new edition of an 'information paper' first published twelve years ago. His survey, admirably done, takes up half the book. The rest of it is taken up with statistical tables and notes on them. The selection of tables is arbitrary, and this section of the book is therefore disappointing.

Money, by J. L. Hanson. English University Press, London, May 1953, 6*s*.

The admirable 'Teach Yourself' series of books has by now covered a wide field, but this is only the second time that it has ventured into the field of Economics. Dr Hanson has done his job well: and it is no easy job to write for the general reader on a subject which must interest everybody but concerning which ignorance and misunderstanding are frighteningly widespread. His book will be valued also by students who want to get a quick survey of the subject before proceeding to deeper study of it.

An Introduction to Linear Programming, by A. Charnes, W. W. Cooper and A. Henderson. New York, John Wiley & Sons, Inc., London, Chapman & Hall, Ltd, 20*s*.

A book for specialists which has emerged from a series of lectures, prepared at the instance of the United States Department of the Air Forces for the School of Industrial Administration for research in intra-firm behaviour, and the Department of Mathematics for research in applied mathematics.

FOR REFERENCE

Items in this Section are kept for one year at the offices of Economic Digest. They are available to members of the Economic Research Council and readers by arrangement. Please write, citing reference number of items given in brackets, to 18 *South Street, London, W.*1, *or telephone GROsvenor* 4581.

Company Statement: Many attempts are being made to present reviews of company activities in a form that employees will understand. An interesting example is part of the statement of *Annual Report and Accounts by Brush Aboe Group*, which shows in diagrams where the money goes, orders invoiced over seven years, effect of trading restrictions, progress, stockholders, employees' length of service, and looking ahead. (318)

European Integration: *Lloyds Bank Review, London, April* 1953. Much has been written on this subject, but nothing more searching and authoritative than this article by Raymond Aron, Professor at Ecole Nationale d'Administration, Paris. (319)

Israel: *Annual Report and Accounts* 1952, *Bank Leumi-Israel B.M.* The fiftieth anniversary of the bank provides an occasion for a thorough survey of the Israel Economy in 1952. It amounts to a progress report on a country where one of the most fascinating adventures in history is proceeding. (320)

Europe-Latin America Trade: Supplement to *Fortnightly Review, Bank of London and South America, Ltd, April* 1953. A short letterpress statement supported by an admirable series of diagrams. (321)

South Africa: *Quarterly Bulletin of Statistics, South African Reserve Bank, March* 1953. Comprehensive statistics, introduced by a review of Economic Conditions in the Union in 1952. (322)

Venezuela: *Venezuela Up-to-date, Embassy, Washington, January* 1953. In the valley of the Orinoco lie great natural resources which in due course will profoundly influence the economy of Venezuela. The discovery there of iron ore has provided the key to the overdue exploitation of the valley. (323)

Pakistan: *Mineral Resources of Pakistan, Mining Journal, London, April* 10, 1953. An optimistic assessment of the future based upon a survey of exploitable resources of oil, coal and lignite, chromite, antimony, etc. (324)

Pakistan: *Pakistan's Commercial Policy, Department of Commercial Intelligence, Karachi.* Statement made in Pakistan Parliament by the Minister for Commerce and Economic Affairs, on March 19, 1953. The Minister is defending the situation, but in course of doing so describes the situation in some detail. (325)

Canada: *Canada and the Paley Report, Monthly Review, Bank of Nova Scotia, March* 1953; *Western Canadian Petroleum Review, Canadian Bank of Commerce, Toronto, February* 1953; *On Counting Canadian Heads, Business Review, Bank of Montreal, April* 23, 1953. The first two titles are self-explanatory. The third covers a survey of population at intervals of ten years from 1851 to 1951. (326)

U.S.S.R.: *Fifth Five-Year Plan: Directives of the XIX Party Congress for the Fifth Five-Year Plan of the Development of the U.S.S.R. in* 1951-5. Text in English of the resolution adopted at the congress on the report of M. Z. Saburov, chairman of State Planning Committee. Issued by Foreign Languages Publishing House, Moscow. (327)

U.S.S.R.: *Big Price Cuts in U.S.S.R., Soviet News, London, April* 2, 1953. Translation of a *Pravda* article of April 1, setting forth in detail the substantial cuts in prices of foodstuffs and manufactured goods officially announced on that day. (328)

Persian Gulf Oil: *Petroleum Press Service, London, May* 1953. Review of major changes occurring in the various oil-producing areas in Persian Gulf. The scale and use of the high oil revenues offer new problems, and their influences give urgency to the task of ensuring economic stability and steady social advance. (329)

S.E. Asia: *Electrical Development in S.E. Asia, The Times Review of Industry, London, May* 1953. Describing schemes in hand which will add considerably more than 2m. kW to the electrical generating capacity of S.E. Asia—including India, Pakistan, Ceylon, Malaya, Burma, Thailand, Viet Nam, and Indonesia. (330)

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